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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

OR

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

Commission File Number 001-37496

RAPID7, INC.
(Exact name of registrant as specified in its charter)

Delaware	**35-2423994**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
100 Summer Street Boston, MA	**02110**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (617) 247-1717

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	The Nasdaq Global Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a small reporting company)	Small reporting company	☐
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any 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 June 30, 2017, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant, based on a closing price of $16.83 per share of the registrant's common stock as reported on The Nasdaq Global Market on June 30, 2017, was approximately $406,041,051. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant. The number of shares of registrant's common stock outstanding as of March 1, 2018 was 46,014,155.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference in Part III, Items 10-14 of this Annual Report on Form 10-K.

Table of Contents

PART I

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K, including the sections entitled “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Statements that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “project,” “seek,” “should,” “target,” “will,” “would” and similar expressions or variations intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following:

• our ability to continue to add new customers, maintain existing customers and sell new products and professional services to new and existing customers;

• the effects of increased competition as well as innovations by new and existing competitors in our market;

• our ability to adapt to technological change and effectively enhance, innovate and scale our solutions;

• our ability to effectively manage or sustain our growth and to attain and sustain profitability;

• our ability to diversify our sources of revenue;

• potential acquisitions and integration of complementary business and technologies;

• our expected use of proceeds;

• our ability to maintain, or strengthen awareness of, our brand;

• perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions, including related to security breaches in our customers; systems, unscheduled downtime or outages;

• statements regarding future revenue, hiring plans, expenses, capital expenditures, capital requirements and stock performance;

• our ability to meet publicly announced guidance or other expectations about our business, key metrics and future operating results;

• our ability to maintain an adequate rate of billings growth;

• our ability to attract and retain qualified employees and key personnel and further expand our overall headcount;

• our ability to grow, both domestically and internationally;

• our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business both in the United States and internationally including laws and regulations related to export compliance;

• our ability to maintain, protect and enhance our intellectual property;

• costs associated with defending intellectual property infringement and other claims; and

• the future trading prices of our common stock and the impact of securities analysts’ reports on these prices.

These statements represent the beliefs and assumptions of our management based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” included under Part I, Item 1A. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

As used in this report, the terms “Rapid7,” the “company,” “we,” us," and our" mean Rapid7, Inc. and its subsidiaries unless the context indicates otherwise.

Item 1. Business

Overview

Organizations of all sizes are faced with a more sophisticated and motivated set of cyber attackers. Coupled with an increasingly complex IT environment and expanding attack surface, driven by mobility and a shift to the cloud, security and IT teams are struggling to maintain adequate levels of cyber security, provide visibility to their management teams, and meet increasing regulatory requirements. At the same time, they must navigate a shortage of capable cyber security professionals. Out of these challenges, the concept of Security Operations, or SecOps, is emerging. SecOps is a movement that recognizes that Security and IT Operations must work together to deliver better security and more nimbly adapt to emerging threats, without adding significant resources. SecOps requires solutions that provide visibility, analytics and automation that enable IT, Security and DevOps to work together to achieve significantly higher levels of productivity and success.

Rapid7 is a leading provider of security and IT analytics and automation solutions for SecOps and is trusted by professionals around the world to provide visibility, analytics and automation to help manage risk, simplify IT complexity and drive innovation. Our solutions, which include vulnerability management, incident detection and response, security information and event management, or SIEM, application security testing, log analytics, and security orchestration and automation all focus on the critical needs of enterprises for greater visibility into their environments, analytics that provide context to complex data, and automation that enables SecOps teams to scale and more efficiently address critical security and IT tasks.

We combine our extensive experience in collecting data from an ever-expanding IT environment, our deep insight into attacker behaviors and techniques, and our powerful and proprietary analytics to provide solutions that can quickly and efficiently identify and prioritize risks and active threats in an enterprise's IT environment. Our broad data collection capabilities encompass endpoints, servers, applications, users, cloud-based assets, client devices, network activity, log data and information from third-party applications. We also provide workflows and automations that can enable and accelerate remediation of these risks and active threats. We have designed our solutions to be easy to deploy and use for security and IT teams of all sizes.

We offer analytic solutions across the following three core areas of SecOps:

- Our Vulnerability Management offerings include our industry-leading vulnerability management, web application security testing and attack simulation products. These solutions provide enterprises with comprehensive, yet prioritized, visibility into potential cyber risks across their IT environment. We have also added remediation workflows to help ensure that these risks can be easily mitigated.

- Our Incident Detection and Response solutions are designed to enable organizations to rapidly detect and respond to cyber security incidents and breaches across physical, virtual and cloud assets, including those associated with the behaviors of their users. These solutions combine the collection of massive amounts of data with our core analytics and machine-learning-driven user behavioral analytics to simplify the task of identifying and responding to potential breaches.

- Our IT Analytics and Automation solutions are designed to allow operations teams to quickly gain visibility into their IT environment and facilitate automated workflows to eliminate repetitive, manual and labor-intensive tasks.

Finally, to complement SecOps products, we offer a range of managed services based on our software solutions and professional services, including incident response services, security advisory services, and deployment and training.

As of December 31, 2017, we had more than 7,000 customers, including 52% of the organizations in the Fortune 100. We have experienced strong revenue growth with revenue increasing from $60.0 million in 2013 to $200.9 million in 2017, representing a 35% compound annual growth rate. In 2017, 70% of our revenues were recurring revenues compared to 67% in 2016. We incurred net losses of $45.5 million, $49.0 million and $49.9 million in 2017, 2016 and 2015, respectively, as we continued to invest for long-term growth.

Recent Developments

On January 30, 2018, we closed on a public offering of 5,950,000 shares of our common stock, of which 1,500,000 shares of common stock were sold by us and 4,450,000 shares of common stock were sold by certain existing stockholders, at an offering price of $22.00 per share, including 770,000 shares pursuant to the underwriters' option to purchase additional shares from the selling stockholders. Our net proceeds from the offering were $30.9 million, after deducting underwriting discounts and commissions and offering expenses payable by us. We did not receive any of the proceeds from the sale of shares by the selling stockholders.

Our Analytics and Automation Cloud

Our Insight Platform is at the core of our SecOps product offerings. The platform was built in the cloud using our extensive experience in collecting and analyzing data to enable our customers to create and manage active, analytics-driven cyber security and IT operations management programs. Our robust data collection architecture supports gathering a wide swath of organizational and environmental data from endpoints to the cloud, including key data about user-specific behavior. By utilizing our powerful, proprietary analytics to assess and understand the context and relationships around users, IT assets and cyber threats within a customer's environment, our solutions can provide our customers with specific, actionable insights for their security and IT operations. We designed the Rapid7 Insight Platform to allow customers to collect their data once and leverage that same data across multiple solutions, providing shared visibility across teams, improved and automated workflows, and reducing time to value for additional solutions. The design and development of our Insight Platform includes the following key features and benefits:

Holistic Dataset for Managing IT Operations and Cyber Security. Our Insight Platform collects information from across an organization's environment into a unified dataset. We collect data from the following sources: cyber security assets such as firewalls, intrusion detection systems, or IDS, intrusion prevention systems, or IPS, and security information and event management, or SIEM; user directories; endpoints such as computers, mobile and connected devices and servers; applications; cloud activity; IT environment permissions, policies and controls; and third parties, such as cloud-based email and business productivity solution providers. Our platform also applies context to events, including user and asset level details. We overlay this against our continuously expanding set of known vulnerabilities, exploits and threat intelligence, providing SecOps professionals a holistic view of their IT environment.

Agentless and Agent-Based Architecture. We developed our platform with flexible processing technologies that employ both agentless data collection and our own internally-developed endpoint agent technology, which enables rapid and seamless integration of our products into our customers' IT environments and provides security and IT professionals with instant visibility into their dynamic and rapidly-expanding IT ecosystem. This allows for easier deployment of our Insight agent, potentially increasing the time to value for not just one of our products, but many of them.

Fast Search. Our search technology enables IT and security professionals to search across their entire IT environment including endpoints and, unlike other machine search solutions, provides live access without having to wait for lengthy indexing processes. These capabilities, along with real time and easily accessible search across raw logs and endpoints for known patterns with intuitive search queries, can enable IT security professionals to access their data for operational purposes.

User Behavior Analytics. Our Insight Platform creates a behavior profile for each user in a customer's IT environment and correlates every event with a user, asset or application. User behavior profiles can then be automatically analyzed to identify suspicious user behavior and compromised user credentials. Our ability to provide rapid context around users and assets involved in an incident can significantly reduce investigation time, enabling organizations to more quickly respond to, contain and mitigate breaches.

Robust Platform and Customer Data Security. Our Insight Platform was designed to provide a secure environment for both our data and that of our customers. We deploy a variety of technologies and industry-leading practices such as physical and logical customer data segregation, network segmentation, audited and monitored access level controls, data anonymization, encryption and separated development-staging-production environments to help ensure that the data collected from a customer's environment remains proprietary and secure. We have achieved Service Organization Control (SOC) II Type 2 certification for the foundation of our platform and are continuing to expand the specific compliance regimes for which we are audited.

Enterprise-Grade Scalability. Our Insight Platform provides a high level of horizontal scalability. We leverage on-premise deployment models and Amazon Web Services, or AWS, to achieve a high degree of redundancy, fault tolerance and cost-effective operations. We are currently deployed in three AWS geographic regions, with plans to add additional geographies. Our automated deployment technologies enable us to add new AWS instances or additional services rapidly. Our infrastructure architecture is designed to process large amounts of data and easily incorporate new data sources, including on premise, cloud and mobile. Our platform is designed to support customers with large numbers of users or with geographically dispersed environments, and we have scaled to meet the needs of customers with over 2.5 million active assets and 700,000 active users as of December 31, 2017.

Extensible Modern Platform. Our technology platform provides a rich set of application programming interfaces, or APIs, and services that enable customers, partners and developers to import and export data and utilize our analytics capabilities. This allows us to easily integrate with other security tools in the customer's environment and also enables customers to build bespoke applications and analysis on top of the data that we gather.

Our Products and Services

Our products have been designed to deliver our sophisticated analytics with an intuitive user interface, focused on ease-of-installation, ease-of-use and fast time-to-value for our customers. Our Insight Platform can easily become part of our customers' operational fabric without requiring internal expertise in systems integration, data science or data scripting.

Vulnerability Management Solutions: Solutions from our Vulnerability Management group help organizations systematically and dynamically manage cyber vulnerabilities, allowing them to understand their exposures and prevent attacks by providing insights into their IT and application environments.

Vulnerability Management

Our Vulnerability Management offerings collect data by scanning our customers' IT environment, and customers can also collect endpoint information by installing our Insight agents. This data is used for analyzing vulnerabilities against our database, detecting security misconfigurations and determining the effectiveness of controls across an IT environment. The key features of our Vulnerability Management offerings include: automatic vulnerability updates; integrated threat feeds incorporating public and proprietary threat intelligence; exception management, which allows organizations to track when risk is knowingly introduced into the IT environment; executive remediation and security testing reporting; interactive charting; scan scheduling and alerting; RealContext classification, which allows organizations to apply business context to threats including by identifying where sensitive data is stored; container, virtual, cloud, unified vulnerability, perimeter and discovery scanning; and policy compliance and management.

InsightVM InsightVM is an Insight Platform based solution that enables customers to assess and remediate their overall exposure to cyber risk across their increasingly complex IT environments. InsightVM provides prioritized guidance based on customized threat models; dynamic live dashboards that are easily customizable and queried; lightweight cloud agents for continuous monitoring; in-product integration with ServiceNow and Jira ticketing systems; and remediation workflow for assigning and tracking remediation progress within the product. InsightVM is offered through a cloud-based subscription or as a managed service. The managed service is known as Managed Vulnerability Management, which provides our resource-constrained customers with a fully outsourced option for leveraging our innovation, expertise and technology.

Nexpose Nexpose is the on-premise version of our Vulnerability Management solution that enables customers to assess and remediate their overall exposure to cyber risk across their increasingly complex IT environments. Nexpose is offered through term and perpetual software licenses. Nexpose perpetual customers also pay fees for annual content subscriptions and maintenance and support subscriptions.

Application Security Testing

Application Security Testing solutions provide comprehensive dynamic application security testing that continuously analyzes web applications for security vulnerabilities and enhances organizations' ability to effectively reduce IT security risk. The key features include: a universal translator to enable IT security professionals to analyze complex applications; customized attack simulation capabilities that allow IT security professionals to automatically test complex business workflows such as shopping carts; scanning automation; attack replay, which allows IT security professionals to replay vulnerabilities in real time in order to verify that vulnerabilities are exploitable and that successful remediation has occurred; continuous site monitoring, which detects changes in application ecosystems and triggers a re-scan according to configurable settings; and integration with ticketing systems.

InsightAppSec InsightAppSec is an Insight Platform based solution that provides comprehensive dynamic application security testing that continuously analyzes web applications for security vulnerabilities. In addition to the above features, InsightAppSec provides live vulnerability reports and the ability to evaluate multiple versions of an individual application in one “app portfolio”. InsightAppSec is offered on a cloud-based subscription basis or as a managed service. The managed service is known as Managed Application Security and provides a fully outsourced option for application scanning and security testing for both resource-constrained organizations and those seeking to supplement their own capabilities.

AppSpider AppSpider is the on-premise version of our Application Security Testing solution that provides comprehensive dynamic application security testing that continuously analyzes web applications for security vulnerabilities. In addition to the above features, AppSpider enables integration with protection technologies to automatically generate web application firewalls, or WAFs, custom rules that help to protect vulnerable applications while the vulnerabilities are being remediated. AppSpider supports most leading WAFs, including F5, Sourcefire and Imperva. AppSpider is offered through term and perpetual software licenses. AppSpider perpetual customers also pay fees for annual maintenance and support.

Penetration Testing

Metasploit Metasploit is an industry-leading penetration testing software solution, developed on an open source framework. Metasploit can be used to safely simulate attacks on an organization's network in order to uncover vulnerabilities before they are exploited by cyber attackers and assess the effectiveness of an organization's existing defenses, security controls and mitigation efforts. The key features of Metasploit include: wizards for standard baseline audits; task chains for automated custom workflows; modules for discrete tasks, such as network segmentation testing; dynamic payloads, designed to evade leading antivirus solutions; closed-loop vulnerability validation to prioritize remediation; phishing awareness management and spear phishing; web-based interface; integrations via remote APIs; and a hardware bridge for testing Internet of Things, or IoT, and hardware devices. Metasploit can integrate with Nexpose to enable IT security professionals to prioritize remediation efforts and understand the impact of an attack before it happens. We also offer a free community version of Metasploit for small companies and students, as well as the open source framework, which is geared toward developers and security researchers. Metasploit is offered through term and perpetual software licenses, and our perpetual customers pay fees for annual content subscriptions and maintenance and support.

Incident Detection and Response Solutions

Our Incident Detection and Response solutions are designed to provide a cost-effective response to the need for Security Information and Event Management (SIEM). Our solutions combine a deep understanding of the attacker mindset with our user behavior analytics (UBA) and our Insight Platform. With our Metasploit community, research and incident response services, we are continually studying and identifying the latest attacker methods. We have learned and continue to learn how attackers behave and how to detect them before they can inflict damage. We have found ways to increase accuracy, speed the process, and achieve greater confidence, even as attacker methods change.

InsightIDR InsightIDR is an Insight Platform based solution which unifies SIEM, UBA, and endpoint detection to detect stealthy attacks across today's complex networks. It analyzes the billions of events that occur daily in organizations to reduce them down to the important notable behaviors and deliver only high-fidelity and prioritized alerts. In addition to identifying stealthy attacks often missed by other solutions, InsightIDR focuses the security team on issues that warrant investigation and reduces the time to investigate with its user correlation, powerful search and endpoint interrogation capabilities. InsightIDR is offered as a cloud-based subscription.

Managed Detection and Response Managed Detection and Response is a fully outsourced service that combines our team of expert analysts with our leading incident detection and user behavior analytics technology, InsightIDR. When attacks are found, customers are promptly informed of all known details and our team moves to incident response, providing security teams with detailed, easy-to-follow remediation steps tailored to the environment.

IT Analytics and Automation Solutions

Logentries Logentries provides a powerful cloud-based solution for collecting, searching, visualizing and analyzing log data. Built-in tagging, alerting and reporting make it easy for customers to maintain a proactive view of their environment and identify anomalous events. Logentries' scalable, cost-effective architecture enables organizations to store and search structured, semi-structured and unstructured data in real time, enabling DevOps and IT professionals to centralize, search and monitor their log data in order to investigate anomalies, troubleshoot issues and conduct root cause analysis. This offering can be used for application debugging and performance monitoring, infrastructure monitoring and troubleshooting, and secure log aggregation in support of compliance requirements. Logentries is offered as a cloud-based subscription.

InsightOps InsightOps is the evolution of Logentries, with an updated user interface consistent with other solutions on the Rapid7 Insight Platform. InsightOps is designed to centralize machine data from across organizations' IT environments for comprehensive operational awareness and control. By pairing endpoint visibility with log analytics, InsightOps empowers IT professionals to quickly identify issues and perform root cause analysis down to the individual endpoint. With the use of InsightOps, we believe that IT professionals have the ability to easily search and ask questions of their data, visualize trends, and produce reports that deliver key insights regarding their IT environments faster, and we believe, resulting in improved uptime and business productivity. InsightOps is offered as a cloud-based subscription.

Komand Our Komand solution is designed to automatically identify risks, respond to incidents, and address issues faster and with less human intervention. Komand combines a library of "plugins" to a variety of security and IT applications with a graphical interface to create workflows. Customers can also access a public library of plug-ins and workflows. These workflows can automate manual and tedious tasks and allow security and IT teams to save time and improve efficiency. Komand is offered through term software licenses.

Sales, Marketing and Community

We sell our solutions through direct inside and field sales team and indirect channel partner relationships.

Sales Our global sales teams focus on both new customer acquisition as well as up-selling and cross-selling additional offerings to our existing customers. Our sales teams are organized by geography, consisting of the Americas; Europe, the Middle East and Africa, or EMEA; and Asia Pacific, or APAC, as well as by target organization size. Our inside sales team primarily focuses on mid-market enterprises, while Fortune 500 enterprises are generally handled by our globally distributed direct field sales teams. Our highly technical sales engineers help define customer use cases, manage solution evaluations and train channel partners.

We maintain a global channel partner network that complements our sales organization. Our channel partner network expands our geographic sales reach by providing language support and broader distribution capabilities, particularly in EMEA, APAC and Latin America. Our channel partners also provide us with additional leverage by assisting in closing customer transactions as part of larger security purchases, sourcing new prospects and securing maintenance renewals. Our sales force works directly with, and is involved in sales to, substantially all of the end customers of our channel partners, and we sometimes engage a channel partner solely to assist with finalizing a purchase. As of December 31, 2017, we had over 700 channel partners.

Marketing We focus our marketing efforts on increasing the strength of the Rapid7 brand, communicating product advantages and business benefits, generating leads for our sales force and channel partners and driving product adoption. We deliver targeted content to demonstrate our thought leadership in security and use digital advertising methods to drive downloads of our free community and trial software, which deliver opportunities to our sales organization. We work with our own researchers, as well as the broader IT and security community, to share important information about vulnerabilities and threats. We share that research through our active online community, social media and traditional public relations. In addition, we host regional and national events to engage both customers and prospects, deliver product training and foster community collaboration.

Community Our online community provides us with a rapidly growing network of active users and influencers who promote the usage of our software, identify cyber risks and provide technical support to each other. Our community includes paid customers of our software, users of free “community” trial editions of our software, security researchers, and users and contributors to our open source Metasploit Framework, which is used to simulate attacks and test an organization’s defenses against real-world threats.

Our Metasploit product has an active community of contributors and users and the penetration testing tool was downloaded over 165,000 times in 2017. This online security community provides us with a robust and growing network of active users and influencers who promote the usage of our software. Security researchers contribute modules to the Metasploit Framework that serve as a resource about real-world attacker techniques. The community also provides us with near real-time visibility into new cyber attacks as they occur and a deep understanding of attacker behaviors.

Sales and marketing expense totaled $111.6 million, $90.5 million and $67.4 million for 2017, 2016 and 2015, respectively.

Support and Services

We sell software maintenance and support that provides our customers with the latest version of our platform and applications. We also offer security content subscriptions with our Nexpose and Metasploit products which give our customers real-time updates on the latest vulnerabilities and exploits. We also provide deployment support and training.

Our Security Advisory Services help customers transform their organizations’ security programs to be relevant, actionable and sustainable through a data and analytics-driven cyber security program. Our offerings include Cyber Security Maturity Assessment, Incident Response Program Development, Penetration Testing, Security Program Development, Virtual CISO, IoT Security Services and Threat Modeling. Customers can take control of their organizations’ security with help from our seasoned security professionals who have deep experience building and managing security programs.

Our Security Advisory Services enhance our ability to serve as a trusted advisor in assisting organizations to think proactively about IT security and implement strategic, analytics-driven security strategies. We believe that our role as trusted advisor helps drive customer success and loyalty and further usage of our products.

When a breach occurs, our Incident Response Services give our customers access to our industry-leading security experts and experience, enabling customers to accelerate incident investigation, forensics, and containment. Our incident response professionals collaborate with each organization’s IT security professionals on all stages of incident response from analysis through containment, remediation and cleanup.

Research and Development

We invest substantial resources in research and development to enhance our core technology platform and products, develop new end market-specific solutions and applications, and conduct product and quality assurance testing. Our technical and engineering team monitors and tests our products on a regular basis, and we maintain a regular release process to refine, update, and enhance our existing products. We also have a team of experienced security researchers who work to keep us abreast of the latest developments in the cyber security landscape. Our research and development teams are located in our offices in Cambridge, Massachusetts; Austin, Texas; Los Angeles, California; Toronto, Canada; Dublin, Ireland and Belfast, Northern Ireland providing us with a broad, worldwide reach to engineering talent. Research and development expense totaled $50.9 million, $48.0 million and $38.7 million for 2017, 2016 and 2015, respectively.

Our Customers

Our customer base has grown from approximately 2,733 customers at the end of 2013 to more than 7,000 customers as of December 31, 2017, in 127 countries, including 52% of the organizations in the Fortune 100. We define a customer as any entity that has (1) an active Rapid7 contract or a contract that expired within 90 days or less of the applicable measurement date; and for Logentries products, those customers with a contract value equal to or greater than $2,400 per year, or (2) purchased Rapid7 professional services within the 12 months preceding the applicable measurement date. We provide products and services to customers of varying sizes, including enterprises, non-profit organizations, educational institutions and government agencies. Fifty-six percent of our revenue in 2017 was generated by large enterprises, which we define as organizations that have either annual revenue greater than $1.0 billion or more than 2,500 employees, and the balance was generated by middle-market organizations. Our customers span a wide variety of industries including technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, education, real estate, transportation, government and professional services, with customers in the finance industry representing our largest industry in 2017 at 14% of our revenue. Our revenue is not concentrated with any individual customer or group of customers, and no customer represented more than 2% of our revenue in 2017, 2016 or 2015.

Our Competition

The markets we operate in are highly competitive, fragmented and subject to technology change and innovation. They include the vulnerability management and assessment, SIEM, security services and other sectors in cyber security, compliance and IT operations management. Our primary competitors include: vulnerability management vendors including Qualys and Tenable Network Security; diversified security software and services vendors, including IBM; legacy compliance and monitoring solutions such as SIEM, provided by vendors including Splunk, Micro Focus (through its acquisition of ArcSight), LogRhythm, and Alienvault; security services specialists, including Mandiant (a subsidiary of FireEye); and providers of point solutions that compete with some of the features present in our solutions.

We compete on the basis of a number of factors, including:

- product functionality;
- breadth of offerings;
- performance;
- brand name, reputation and customer satisfaction;
- ease of implementation, use and maintenance;
- total cost of ownership; and
- scalability, reliability and security.

Certain of our competitors have greater sales, marketing and financial resources, more extensive geographic presence or greater brand awareness than we do. We may face future competition in our markets from other large, established companies, as well as from emerging companies. In addition, we expect that there is likely to be continued consolidation in our industry that could lead to increased price competition and other forms of competition.

Intellectual Property

Our future success and competitive position depend in part on our ability to protect our intellectual property and proprietary technologies. To safeguard these rights, we rely on a combination of patents, trademarks, copyrights, trade secrets, employee and third-party nondisclosure agreements, licensing arrangements and other contractual protections to protect our intellectual property in the United States and other jurisdictions.

We have numerous issued patents and a number of registered and unregistered trademarks. We believe that the duration of our issued patents is sufficient when considering the expected lives of our products. We file patent applications to protect our intellectual property and have a number of patent applications pending in the United States. We require our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and control access to software, documentation and other proprietary information. Although we rely on intellectual property rights, including trade secrets, patents, copyrights and trademarks, as well as contractual protections to establish and protect our proprietary rights, we believe that factors such as the technological and creative skills of our personnel, creation of new modules, features and functionality, and frequent enhancements to our solutions are more essential to establishing and maintaining our technology leadership position.

We also license software from third parties for integration into our offerings, including open source software and other software available on commercially reasonable terms. We cannot assure you that such third parties will maintain such software or continue to make it available.

Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to copy or obtain and use our technology to develop products with the same functionality as our solution. Policing unauthorized use of our technology and intellectual property rights is difficult.

We expect that software and other solutions in our industry may be subject to third-party infringement claims as the number of competitors grows and the functionality of products in different industry segments overlaps. Any of these third parties might make a claim of infringement against us at any time.

Employees

As of December 31, 2017, we had 1,079 full-time employees, including 236 in product delivery and support, 437 in sales and marketing, 266 in research and development and 140 in general and administrative. As of December 31, 2017, we had 805 full-time employees in the United States and 274 full-time employees internationally. None of our U.S. employees are covered by collective bargaining agreements. We believe our employee relations are good and we have not experienced any work stoppages.

Segments

We view our operations and manage our business as one operating segment. See our consolidated financial statements for a discussion of revenues, operating loss, net loss and total assets.

Corporate Information

We were initially incorporated in July 2000 in Delaware. Rapid7 LLC, a limited liability company organized under the laws of the Commonwealth of Massachusetts, was formed in January 2004. In August 2004, pursuant to an exchange agreement among Rapid7 LLC and the stockholders of Rapid7, Inc., the stockholders exchanged their shares in Rapid7, Inc. for equity interests in Rapid7 LLC, after which Rapid7, Inc. was dissolved. In August 2008, Rapid7 LLC was merged with and into Rapid7 LLC, a newly-formed Delaware limited liability company. Rapid7, Inc. was reincorporated in Delaware in October 2011. In a series of transactions in November 2011, equity holders of Rapid7 LLC exchanged their equity interests in Rapid7 LLC for capital stock in Rapid7, Inc. and Rapid7 LLC became a wholly-owned subsidiary of Rapid7, Inc.

Our principal executive offices are located at 100 Summer Street, Boston, Massachusetts. Our telephone number is +1 617-247-1717. Our website address is www.rapid7.com.

"Rapid7," the Rapid7 logo, and other trademarks or service marks of Rapid7, Inc. appearing in this Annual Report on Form 10-K are the property of Rapid7, Inc. This Annual Report on Form 10-K contains additional trade names, trademarks and service marks of others, which are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this Annual Report on Form 10-K may appear without the ® or TM symbols. The information contained on our website or information that may be accessed through links on our website is not incorporated by reference into this Annual Report on Form 10-K.

Geographic Information

For a description of our revenue and long-lived assets by geographic location, see Note 14 of the Notes to our Consolidated Financial Statements included in this Annual Report on Form 10-K.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on or through our website at *investors.rapid7.com* as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. The SEC also maintains a website, *www.sec.gov*, which contains reports and other information regarding issuers that file electronically with the SEC. The public may read and copy any files with the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330.

Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties including those described below. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes, as well as our other public filings with the Securities and Exchange Commission, or the SEC, before making an investment decision. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks or others not specified below materialize, our business, financial condition and results of operations could be materially adversely affected. In that event, the trading price of our common stock could decline. Please also see "Special Note Regarding Forward-Looking Statements."

Risks Related to Our Business and Industry

We are a rapidly growing company, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.

We are a rapidly growing company. Our ability to forecast our future operating results is subject to a number of uncertainties, including our ability to plan for and model future growth. We have encountered and will continue to encounter risks and uncertainties frequently experienced by growing companies in rapidly evolving industries. If our assumptions regarding these uncertainties, which we use to plan our business, are incorrect or change in reaction to changes in our markets, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, our business could suffer and the trading price of our common stock may decline.

If we are unable to sustain our revenue growth rate, we may not achieve or maintain profitability in the future.

From the year ended December 31, 2013 to the year ended December 31, 2017, our revenue grew from $60.0 million to $200.9 million, which represents a compounded annual growth rate of approximately 35%. Although we have experienced rapid growth historically and currently have high renewal rates, we expect that we may not continue to grow as rapidly in the future and our renewal rates may decline. Any success that we may experience in the future will depend, in large part, on our ability to, among other things:

- maintain and expand our customer base;
- successfully manage the transition to a more subscription-based business model;
- increase revenues from existing customers through increased or broader use of our products and professional services within their organizations;
- improve the performance and capabilities of our products through research and development;
- continue to develop our cloud-based solutions;
- maintain the rate at which customers purchase our content subscriptions, maintenance and support and managed services;
- continue to successfully expand our business domestically and internationally; and
- successfully compete with other companies.

If we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability. You should not rely on our revenue for any prior quarterly or annual periods as any indication of our future revenue or revenue growth.

We have not been profitable historically and may not achieve or maintain profitability in the future.

We have posted a net loss in each year since inception, including net losses of $45.5 million, $49.0 million and $49.9 million in the years ended December 31, 2017, 2016 and 2015, respectively. As of December 31, 2017, we had an accumulated deficit of $434.9 million. While we have experienced significant revenue growth in recent periods, we are not certain whether or when we will obtain a high enough volume of sales of our products and professional services to sustain or increase our growth or achieve or maintain profitability in the future. We also expect our costs to increase in future periods, which could negatively affect our future operating results if our revenue does not increase. In particular, we expect to continue to expend financial and other resources on:

- research and development related to our offerings, including investments in our research and development team;
- sales and marketing, including a significant expansion of our sales organization, both domestically and internationally;
- continued international expansion of our business;
- expansion of our professional services organization; and
- general and administrative expenses as we continue to implement and enhance our administrative, financial and operational systems, procedures and controls.

These investments may not result in increased revenue or growth in our business. If we are unable to increase our revenue at a rate sufficient to offset the expected increase in our costs, our business, financial position and results of operations will be harmed, and we may not be able to achieve or maintain profitability over the long term. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays and other unknown factors that may result in losses in future periods. If our revenue growth does not meet our expectations in future periods, our financial performance may be harmed, and we may not achieve or maintain profitability in the future.

If our products or professional services fail to detect vulnerabilities or incorrectly detect vulnerabilities, or if our products contain undetected errors or defects, our brand and reputation could be harmed, which could have an adverse effect on our business and results of operations.

If our products or professional services fail to detect vulnerabilities in our customers' cyber security infrastructure, or if our products or professional services fail to identify and respond to new and increasingly complex methods of cyber attacks, our business and reputation may suffer. There is no guarantee that our products or professional services will detect all vulnerabilities, especially in light of the rapidly changing security landscape to which we must respond. Additionally, our products may falsely detect vulnerabilities or threats that do not actually exist. For example, our Metasploit offering relies on information provided by an active community of security researchers who contribute new exploits, attacks and vulnerabilities. If the information from these third parties is inaccurate, the potential for false indications of security vulnerabilities increases. These false positives, while typical in the industry, may impair the perceived reliability of our offerings and may therefore adversely impact market acceptance of our products and professional services and could result in negative publicity, loss of customers and sales and increased costs to remedy any problem.

Our products may also contain undetected errors or defects when first introduced or as new versions are released. We have experienced these errors or defects in the past in connection with new products and product upgrades and we expect that these errors or defects will be found from time to time in the future in new or enhanced products after commercial release. Defects may cause our products to be vulnerable to attacks, cause them to fail to detect vulnerabilities, or temporarily interrupt customers' networking traffic. Any errors, defects, disruptions in service or other performance problems with our products may damage our customers' business and could hurt our reputation. If our products or professional services fail to detect vulnerabilities for any reason, we may incur significant costs, the attention of our key personnel could be diverted, our customers may delay or withhold payment to us or elect not to renew or other significant customer relations problems may arise. We may also be subject to liability claims for damages related to errors or defects in our products. A material liability claim or other occurrence that harms our reputation or decreases market acceptance of our products may harm our business and operating results.

An actual or perceived security breach or theft of the sensitive data of one of our customers, regardless of whether the breach is attributable to the failure of our products or professional services, could adversely affect the market's perception of our offerings and subject us to legal claims.

The market for Security Operations is new and unproven and may not grow.

We believe our future success will depend in large part on the growth, if any, in the market for Security Operations, or SecOps. This market is nascent, and as such, it is difficult to predict important market trends, including the potential growth, if any. To date, the majority of enterprise spend on cyber security has been on threat protection products, such as network, endpoint and web security that are designed to stop threats from penetrating corporate networks. Organizations that use these security products may believe that their existing security solutions sufficiently protect access to their sensitive business data. Therefore, they may continue allocating their cyber security budgets to these products and may not adopt our products and professional services in addition to, or in lieu of, such traditional products. Further, sophisticated cyber attackers are skilled at adapting to new technologies and developing new methods of gaining access to organizations' sensitive business data, and changes in the nature of advanced cyber threats could result in a shift in IT budgets away from products and professional services such as ours. In addition, while recent high visibility attacks on prominent enterprises and governments have increased market awareness of the problem of cyber attacks, if cyber attacks were to decline, or enterprises or governments perceived that the general level of cyber attacks have declined, our ability to attract new customers and expand our sale to existing customers could be materially and adversely affected. If products and professional services such as ours are not viewed by organizations as necessary, or if customers do not recognize the benefit of our offerings as a critical layer of an effective cyber security strategy, our revenue may not grow as quickly as expected, or may decline, and the trading price of our stock could suffer. It is therefore difficult to predict how large the market will be for our solutions.

In addition, it is difficult to predict customer adoption and renewal rates, customer demand for our products and professional services, the size and growth rate of the market for SecOps, the entry of competitive products or the success of existing competitive products. Any expansion in our market depends on a number of factors, including the cost, performance and perceived value associated with our offerings and those of our competitors. If these offerings do not achieve widespread adoption or there is a reduction in demand for solutions in our market caused by a lack of customer acceptance, technological challenges, competing technologies and products, decreases in corporate spending, weakening economic conditions, or otherwise, it could result in reduced customer orders, early terminations, reduced renewal rates or decreased revenue, any of which would adversely affect our business operations and financial results. You should consider our business and prospects in light of the risks and difficulties we face in this new and unproven market.

If we are unable to successfully hire, train, manage and retain qualified personnel, especially those in sales and marketing and research and development, our business may suffer.

We continue to be substantially dependent on our sales force to obtain new customers and increase sales with existing customers. Our ability to successfully pursue our growth strategy will also depend on our ability to attract, motivate and retain our personnel, especially those in sales, marketing and research and development. We face intense competition for these employees from numerous technology, software and other companies, especially in certain geographic areas in which we operate, and we cannot ensure that we will be able to attract, motivate and/or retain sufficient qualified employees in the future. If we are unable to attract new employees and retain our current employees, we may not be able to adequately develop and maintain new products or professional services or market our existing products or professional services at the same levels as our competitors and we may, therefore, lose customers and market share. Our failure to attract and retain personnel, especially those in sales and marketing and research and development positions for which we have historically had a high turnover rate, could have an adverse effect on our ability to execute our business objectives and, as a result, our ability to compete could decrease, our operating results could suffer and our revenue could decrease. Even if we are able to identify and recruit a sufficient number of new hires, these new hires will require significant training before they achieve full productivity and they may not become productive as quickly as we would like or at all.

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

Our sales cycle may be unpredictable.

The timing of sales of our offerings is difficult to forecast because of the length and unpredictability of our sales cycle, particularly with large enterprises and with respect to certain of our products. We sell our products primarily to IT departments that are managing a growing set of user and compliance demands, which has increased the complexity of customer requirements to be met and confirmed during the sales cycle and prolonged our sales cycle. Further, the length of time that potential customers devote to their testing and evaluation, contract negotiation and budgeting processes varies significantly, depending on the size of the organization and nature of the product or service under consideration. In addition, we might devote substantial time and effort to a particular unsuccessful sales effort, and as a result, we could lose other sales opportunities or incur expenses that are not offset by an increase in revenue, which could harm our business.

Organizations may be reluctant to purchase SecOps offerings that are cloud-based due to the actual or perceived vulnerability of cloud solutions.

Some organizations have been reluctant to use cloud solutions for cyber security, such as our InsightIDR, InsightVM, InsightAppSec, InsightOps and Logentries products, because they have concerns regarding the risks associated with the reliability or security of the technology delivery model associated with this solution. If we or other cloud service providers experience security incidents, breaches of customer data, disruptions in service delivery or other problems, the market for cloud solutions may be negatively impacted, which could harm our business.

Our quarterly operating results may vary from period to period, which could result in our failure to meet expectations with respect to operating results and cause the trading price of our stock to decline.

Our operating results, including the levels of our revenue, billings, cash flow, deferred revenue and gross margins, have historically varied from period to period, and we expect that they will continue to do so as a result of a number of factors, many of which are outside of our control, including:

- the level of demand for our products and professional services;
- customer renewal rates and ability to attract new customers;
- the extent to which customers purchase additional products, including content subscriptions and maintenance and support related to our Nexpose, Metasploit and AppSpider products, or professional services;
- the ability to successfully grow our sales of InsightOps, InsightIDR, InsightVM and InsightAppSec;
- the level of perceived threats to organizations' cyber security;
- network outages, security breaches, technical difficulties or interruptions with our products;
- changes in the growth rate of the markets in which we compete;
- variations in our billings and sales of our products and professional services due to seasonality and customer demand;
- the timing and success of new product or service introductions by us or our competitors or any other changes in the competitive landscape of our industry, including consolidation among our competitors;
- the introduction or adoption of new technologies that compete with our offerings;
- the mix of our products and professional services sold during a period;
- decisions by potential customers to purchase cyber security products or professional services from other vendors;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- the timing of sales commissions relative to the recognition of revenue and the timing of revenue recognition generally;
- price competition;
- our ability to successfully manage and integrate any future acquisitions of businesses, including without limitation the amount and timing of expenses and potential future charges for impairment of goodwill from acquired companies;
- our ability to increase, retain and incentivize the channel partners that market and sell our products and professional services;
- our continued international expansion and associated exposure to changes in foreign currency exchange rates, including any fluctuations caused by uncertainties relating to Brexit;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- the announcement or adoption of new regulations and policy mandates or changes to existing regulations and policy mandates;
- unforeseen litigation and intellectual property infringement;
- the strength of regional, national and global economies;
- the impact of natural disasters or manmade problems such as terrorism or war; and
- future accounting pronouncements or changes in our accounting policies.

Each factor above or discussed elsewhere herein or the cumulative effect of some of these factors may result in fluctuations in our operating results. This variability and unpredictability could result in our failure to meet expectations with respect to operating

results, or those of securities analysts or investors, for a particular period. If we fail to meet or exceed expectations for our operating results for these or any other reasons, the market price of our stock could fall and we could face costly lawsuits, including securities class action suits.

If we do not continue to innovate and offer products and professional services that address the dynamic threat landscape, we may not remain competitive, and our revenue and operating results could suffer.

The SecOps market is characterized by rapid technological advances, changes in customer requirements, frequent new product introductions and enhancements and evolving industry standards. Our success also depends, in part, upon our ability to anticipate industry evolution and introduce or acquire new products and professional services to keep pace with technological developments and market requirements both within our industry and in related industries. While we continue to invest significant resources in research and development in order to ensure that our products continue to address the cyber security risks that our customers face, the introduction of products and professional services embodying new technologies could render our existing products or professional services obsolete or less attractive to customers. In addition, developing new products and product enhancements is expensive and time consuming, and there is no assurance that such activities will result in significant cost savings, revenue or other expected benefits. If we spend significant time and effort on research and development and are unable to generate an adequate return on our investment, our business and results of operations may be materially and adversely affected. Further, we may not be able to successfully anticipate or adapt to changing technology or customer requirements or the dynamic threat landscape on a timely basis, in a way that sufficiently differentiates us from competing solutions such that customers choose to purchase our solutions. If any of our competitors implement new technologies before we are able to implement them or better anticipate the innovation opportunities in related industries, those competitors may be able to provide more effective or more cost-effective solutions than ours. In addition, we may experience technical problems and additional costs as we introduce new products and product enhancements, deploy future iterations of our products and integrate new products with existing customer systems. If any of these problems were to arise, our business, financial condition and results of operations could be adversely affected.

To date, we have derived a substantial majority of our revenue from customers using our vulnerability management offerings. If we are unable to renew or increase sales of our vulnerability management offerings, or if we are unable to increase sales of our other offerings, our business and operating results could be adversely affected.

Although we continue to introduce and acquire new products and professional services, we derive and expect to continue to derive a substantial majority of our revenue from customers using certain of our vulnerability management offerings, Nexpose and Metasploit. Greater than half of our revenue was attributable to Nexpose and Metasploit in each of our last three fiscal years. As a result, our operating results could suffer due to:

- any decline in demand for our vulnerability management offerings;
- failure of our vulnerability management offerings to detect vulnerabilities in our customers' IT environments;
- the introduction of products and technologies that serve as a replacement or substitute for, or represent an improvement over, our vulnerability management offerings;
- technological innovations or new standards that our vulnerability management offerings do not address;
- sensitivity to current or future prices offered by us or competing solutions; and
- our inability to release enhanced versions of our vulnerability management offerings on a timely basis in response to the dynamic threat landscape.

Our inability to renew or increase sales of our vulnerability management offerings, including content subscriptions, maintenance and support and managed services, or a decline in prices of our vulnerability management offerings would harm our business and operating results more seriously than if we derived significant revenues from a variety of offerings. In addition, we have introduced several cloud-based subscription products, including InsightOps, InsightIDR, InsightVM and InsightAppSec products. These products are relatively new, and it is uncertain whether they will gain market acceptance. We are also investing in the expansion of our security advisory services offerings, which we believe will help drive demand for our other products in addition to being a stand-alone service. Any factor adversely affecting sales of our products or professional services, including release cycles, market acceptance, competition, performance and reliability, reputation and economic and market conditions, could adversely affect our business and operating results.

Our business and growth depend substantially on customers renewing their content subscriptions and maintenance and support agreements with us. Any decline in our customer renewals could adversely affect our future operating results.

Our maintenance and support agreements are sold on a term basis. In addition, we also enter into content subscription agreements for our offerings. In order for us to improve our operating results, it is important that our existing customers renew their content subscription agreements, if applicable, and maintenance and support agreements when the initial contract term expires. Our customers have no obligation to renew their content subscription or maintenance and support agreements with us after the initial terms have expired. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our new or current product offerings, our pricing, the effects of economic conditions, competitive offerings or alterations or reductions in our customers' spending levels. If our customers do not renew their agreements with us or renew on terms less favorable to us, our revenues and results of operations may be adversely impacted.

If we fail to successfully manage the transition to a more subscription-based business model, our results of operations could be negatively impacted.

We offer our solutions through a combination of term and perpetual software licenses, cloud-based subscriptions and managed services offerings. Historically, a substantial majority of our customers have purchased our vulnerability management offerings through a perpetual license. We are currently transitioning to a more subscription-based business model. The subscription pricing model allows customers to use our solutions at a lower initial cost of software acquisition when compared to the more traditional perpetual license sale. It is uncertain whether this transition will prove successful or whether we will be able to successfully transition our sales approach to drive subscription revenue. This transition may have negative revenue implications and our business could be harmed.

This subscription strategy may give rise to a number of risks, including the following:

- our revenue growth may decline more than anticipated over the short-term;
- if new or current customers desire only perpetual licenses, our subscription sales may lag behind our expectations or those of market or industry analysts;
- the shift to a more subscription-based strategy may raise concerns among our customer base, including concerns regarding changes to pricing over time and access to files once a subscription has expired;
- we may be unsuccessful in maintaining our target pricing, product adoption and projected renewal rates, or we may select a target price that is not optimal and could negatively affect our sales or earnings;
- our shift to a more subscription-based model may result in confusion among new or existing customers (which could slow adoption rates), partners and investors;
- our shift to a more subscription-based model may result in lower-than-expected sales performance;
- if our customers do not renew their subscriptions, our revenue may decline over the long-term and our business may suffer;
- our relationships with existing channel partners that resell perpetual licenses may be damaged; and
- we may incur sales compensation costs at a higher than forecasted rate if the pace of our subscription transition is faster than anticipated.

If Metasploit were to be used by attackers to exploit vulnerabilities in the cyber security infrastructures of third parties, our reputation and business could be harmed.

Although Metasploit is a penetration testing tool that is intended to allow organizations to test the effectiveness of their cyber security programs, Metasploit has in the past and may in the future be used to exploit vulnerabilities in the cyber security infrastructures of third parties. While we have incorporated certain features into Metasploit to deter misuse, there is no guarantee that these controls will not be circumvented or that Metasploit will only be used defensively or for research purposes. Any actual or perceived security breach, malicious intrusion or theft of sensitive data in which Metasploit is believed to have been used could adversely affect perception of, and demand for, our offerings. Further, the identification of new exploits and vulnerabilities by the Metasploit community may enhance the knowledge base of cyber attackers or enable them to undertake new forms of attacks. If any of the foregoing were to occur, we could suffer negative publicity and loss of customers and sales, as well as possible legal claims.

We face intense competition in our market.

The market for SecOps solutions is highly fragmented, intensely competitive and constantly evolving. We compete with an array of established and emerging security software and services vendors. With the introduction of new technologies and market entrants, we expect the competitive environment to remain intense going forward. Our primary competitors include: vulnerability management vendors including Qualys and Tenable Network Security; diversified security software and services vendors, including IBM; legacy compliance and monitoring solutions such as SIEM, provided by vendors including Splunk, Micro Focus (through its acquisition of ArcSight), LogRhythm, and Alienvault; security services specialists, including Mandiant (a subsidiary of FireEye); and providers of point solutions that compete with some of the features present in our solutions.

Some of our actual and potential competitors have advantages over us, such as longer operating histories, significantly greater financial, technical, marketing or other resources, stronger brand and business user recognition, larger and more mature intellectual property portfolios and broader global distribution and presence. In addition, our industry is evolving rapidly and is becoming increasingly competitive. Larger and more established companies may focus on security operations and could directly compete with us. Smaller companies could also launch new products and services that we do not offer and that could gain market acceptance quickly.

Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. With the introduction of new technologies, the evolution of our offerings and new market entrants, we expect competition to intensify in the future. In addition, some of our larger competitors have substantially broader product offerings and can bundle competing products and services with other software offerings. As a result, customers may choose a bundled product offering from our competitors, even if individual products have more limited functionality than our solutions. These competitors may also offer their products at a lower price as part of this larger sale, which could increase pricing pressure on our offerings and cause the average sales price for our offerings to decline. These larger competitors are also often in a better position to withstand any significant reduction in capital spending, and will therefore not be as susceptible to economic downturns.

Furthermore, our current and potential competitors may establish cooperative relationships among themselves or with third parties that may further enhance their resources and product and services offerings in the markets we address. In addition, current or potential competitors may be acquired by third parties with greater available resources. As a result of such relationships and acquisitions, our current 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 and services, initiate or withstand substantial price competition, take advantage of other opportunities more readily or develop and expand their product and service offerings more quickly than we do. For all of these reasons, we may not be able to compete successfully against our current or future competitors, or we may be required to expend significant resources in order to remain competitive. If our competitors are more successful than we are in developing new product and service offerings or in attracting and retaining customers, our business, financial condition and results of operations could be adversely affected.

A component of our growth strategy is dependent on our continued international expansion, which adds complexity to our operations.

We market and sell our products and professional services throughout the world and have personnel in many parts of the world. For the years ended December 31, 2017 and 2016, operations located outside of North America generated 15% and 14% of our revenue, respectively. Our growth strategy is dependent, in part, on our continued international expansion. We expect to conduct a significant amount of our business with organizations that are located outside the United States, particularly in Europe and Asia. We cannot assure you that our expansion efforts into international markets will be successful in creating further demand for our products and professional services or in effectively selling our products and professional services in the international markets that we enter. Our current international operations and future initiatives will involve a variety of risks, including:

- increased management, infrastructure and legal costs associated with having international operations;
- reliance on channel partners;
- trade and foreign exchange restrictions;
- economic or political instability or uncertainty in foreign markets and around the world, such as related to the United Kingdom’s referendum in June 2016 in which voters approved an exit from the European Union, commonly referred to as “Brexit”;
- foreign currency exchange rate fluctuations;
- greater difficulty in enforcing contracts, accounts receivable collection and longer collection periods;

- changes in regulatory requirements, including, but not limited to data privacy, data protection and data security regulations;
- difficulties and costs of staffing and managing foreign operations;
- the uncertainty and limitation of protection for intellectual property rights in some countries;
- costs of compliance with foreign laws and regulations and the risks and costs of non-compliance with such laws and regulations;
- costs of compliance with U.S. laws and regulations for foreign operations, including the U.S. Foreign Corrupt Practices Act, import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell or provide our solutions in certain foreign markets, and the risks and costs of non-compliance;
- heightened risks of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, and irregularities in, financial statements;
- the potential for political unrest, acts of terrorism, hostilities or war;
- management communication and integration problems resulting from cultural differences and geographic dispersion;
- costs associated with language localization of our products; and
- costs of compliance with multiple and possibly overlapping tax structures.

Our business, including the sales of our products and professional services by us and our channel partners, may be subject to foreign governmental regulations, which vary substantially from country to country and change from time to time. Our failure, or the failure by our channel partners, to comply with these regulations could adversely affect our business. Further, in many foreign countries it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. regulations applicable to us. Although we have implemented policies and procedures designed to comply with these laws and policies, there can be no assurance that our employees, contractors, channel partners and agents have complied, or will comply, with these laws and policies. Violations of laws or key control policies by our employees, contractors, channel partners or agents could result in delays in revenue recognition, financial reporting misstatements, fines, penalties or the prohibition of the importation or exportation of our products and could have a material adverse effect on our business and results of operations. If we are unable to successfully manage the challenges of international expansion and operations, our business and operating results could be adversely affected.

We are also monitoring developments related to Brexit, which could have significant implications for our business. Brexit could lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, and differing laws and regulations as the United Kingdom determines which European Union laws to replace or replicate. Any of these effects of Brexit, among others, could adversely affect our operations in the United Kingdom and our financial results.

As a cyber security provider, we are a target of cyber attacks that could adversely impact our reputation and operating results.

We sell cyber security and data analytics products. As a result, we have been and will be a target of cyber attacks designed to impede the performance of our products, penetrate our network security or the security of our cloud platform or our internal systems, or that of our customers, misappropriate proprietary information and/or cause interruptions to our services. For example, because Metasploit serves as an introduction to hacking for many individuals, a successful cyber attack on us may be perceived as a victory for the cyber attacker, thereby increasing the likelihood that we may be a target of cyber attacks, even absent financial motives. Further, if our systems are breached, attackers could learn critical information about how our products operate to help protect our customers’ IT infrastructures from cyber risk, thereby making our customers more vulnerable to cyber attacks. In addition, if actual or perceived breaches of our network security occur, they could adversely affect the market perception of our products, negatively affecting our reputation, and may expose us to the loss of our proprietary information or information belonging to our customers, investigations or litigation and possible liability, including injunctive relief and monetary damages. Such security breaches could also divert the efforts of our technical and management personnel. In addition, such security breaches could impair our ability to operate our business and provide products to our customers. If this happens, our reputation could be harmed, our revenue could decline and our business could suffer.

We are dependent on the continued services and performance of our senior management and other key employees, the loss of any of whom could adversely affect our business, operating results and financial condition.

Our future performance depends on the continued services and contributions of our senior management, particularly Corey Thomas, our President and Chief Executive Officer, and other key employees to execute on our business plan and to identify and pursue new opportunities and product innovations. From time to time, there may be changes in our senior management team resulting from the termination or departure of our executive officers and key employees. Our senior management and key employees are generally employed on an at-will basis, which means that they could terminate their employment with us at any time. The loss of the services of our senior management, particularly Mr. Thomas, or other key employees for any reason could significantly delay or prevent our development or the achievement of our strategic objectives and harm our business, financial condition and results of operations.

Our business and operations are experiencing rapid growth, and if we do not appropriately manage our future growth, or are unable to scale our systems and processes, our operating results may be negatively affected.

We are a rapidly growing company. To manage future growth effectively we will need to continue to improve and expand our internal information technology systems, financial infrastructure, and operating and administrative systems and controls, which we may not be able to do efficiently, in a timely manner or at all. Any future growth would add complexity to our organization and require effective coordination across our organization. Failure to manage any future growth effectively could result in increased costs, harm our results of operations and lead to customers or investors losing confidence in our internal systems and processes, which could harm our results of operations and stock price.

We recognize substantially all of our revenue ratably over the term of our agreements with customers and, as a result, downturns or upturns in sales may not be immediately reflected in our operating results.

We recognize substantially all of our revenue ratably over the terms of our agreements with customers, which generally occurs over a one to three-year period. As a result, a substantial portion of the revenue that we report in each period will be derived from the recognition of deferred revenue relating to agreements entered into during previous periods. Consequently, a decline in new sales or renewals in any one period may not be immediately reflected in our revenue results for that period. This decline, however, will negatively affect our revenue in future periods. Accordingly, the effect of significant 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. Our model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers generally will be recognized over the term of the applicable agreement.

We also intend to increase our investment in research and development, sales and marketing, and general and administrative functions and other areas to grow our business. We are likely to recognize the costs associated with these increased investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop more slowly, than we expect, which could adversely affect our operating results.

We may be unable to rapidly and efficiently adjust our cost structure in response to significant revenue declines, which could adversely affect our operating results.

Our brand, reputation and ability to attract, retain and serve our customers are dependent in part upon the reliable performance of our products and network infrastructure.

Our brand, reputation and ability to attract, retain and serve our customers are dependent in part upon the reliable performance of our products and network infrastructure. We have experienced, and may in the future experience, disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints and fraud or security attacks. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time.

We utilize third-party data centers located in Boston, Massachusetts, in addition to operating and maintaining certain elements of our own network infrastructure. We also utilize Amazon Web Services for our Insight Platform infrastructure. Some elements of this complex system are operated by third parties that we do not control and that could require significant time to replace. We expect this dependence on third parties to continue. More specifically, certain of our products, in particular our Managed Vulnerability Management (Nexpose), InsightIDR, InsightVM, InsightAppSec, InsightOps and Logentries products, are hosted on Amazon Web Services, which provides us with computing and storage capacity. Interruptions in our systems or the third-party systems on which we rely, whether due to system failures, computer viruses, physical or electronic break-ins, or other factors, could affect the security or availability of our products, network infrastructure and website.

Prolonged delays or unforeseen difficulties in connection with adding capacity or upgrading our network architecture when required may cause our service quality to suffer. Problems with the reliability or security of our systems could harm our reputation. Damage to our reputation and the cost of remedying these problems could negatively affect our business, financial condition, and operating results.

Additionally, our existing data center facilities and third-party hosting providers have no obligations to renew their agreements with us on commercially reasonable terms or at all, and certain of the agreements governing these relationships may be terminated by either party at any time. If we are unable to maintain or renew our agreements with these providers on commercially reasonable terms or if in the future we add additional data center facilities or third-party hosting providers, we may experience costs or downtime as we transition our operations.

Any disruptions or other performance problems with our products could harm our reputation and business and may damage our customers' businesses. Interruptions in our service delivery might reduce our revenue, cause us to issue credits to customers, subject us to potential liability and cause customers to not renew their purchases or our products.

If we fail to manage our operations infrastructure, our customers may experience service outages and/or delays.

Our future growth is dependent upon our ability to continue to meet the expanding needs of our customers and to attract new customers. As existing customers gain more experience with our products, they may broaden their reliance on our products, which will require that we expand our operations infrastructure. We also seek to maintain excess capacity in our operations infrastructure to facilitate the rapid provision of new customer deployments. In addition, we need to properly manage our technological operations infrastructure in order to support changes in hardware and software parameters and the evolution of our products, all of which require significant lead time. If we do not accurately predict our infrastructure requirements, our existing customers may experience service outages that may subject us to financial penalties, financial liabilities and customer losses. If our operations infrastructure fails to keep pace with increased sales, customers may experience delays as we seek to obtain additional capacity, which could adversely affect our reputation and our revenue.

If our products fail to help our customers achieve and maintain compliance with regulations and/or industry standards, our revenue and operating results could be harmed.

We generate a portion of our revenue from our vulnerability management offerings that help organizations achieve and maintain compliance with regulations and industry standards both domestically and internationally. For example, many of our customers subscribe to our vulnerability management offerings to help them comply with the security standards developed and maintained by the Payment Card Industry Security Standards Council, or the PCI Council, which apply to companies that process, transmit or store cardholder data. In addition, our vulnerability management offerings are used by customers in the health care industry to help them comply with numerous federal and state laws and regulations related to patient privacy. In particular, the Health Insurance Portability and Accountability Act of 1996, or HIPAA, and the 2009 Health Information Technology for Economic and Clinical Health Act include privacy standards that protect individual privacy by limiting the uses and disclosures of individually identifiable health information and implementing data security standards. The foregoing and other state, federal and international legal and regulatory regimes may affect our customers' requirements for, and demand for, our products and professional services. Governments and industry organizations, such as the PCI Council, may also adopt new laws, regulations or requirements, or make changes to existing laws or regulations, that could impact the demand for, or value of, our products. If we are unable to adapt our products to changing legal and regulatory standards or other requirements in a timely manner, or if our products fail to assist with, or expedite, our customers' cyber security defense and compliance efforts, our customers may lose confidence in our products and could switch to products offered by our competitors or threaten or bring legal actions against us. In addition, if laws, regulations or standards related to data security, vulnerability management and other IT security and compliance requirements are relaxed or the penalties for non-compliance are changed in a manner that makes them less onerous, our customers may view government and industry regulatory compliance as less critical to their businesses, and our customers may be less willing to purchase our products. In any of these cases, our revenue and operating results could be harmed.

In addition, government and other customers may require our products to comply with certain privacy, security or other certifications and standards. If our products are late in achieving or fail to achieve or maintain compliance with these certifications and standards, or our competitors achieve compliance with these certifications and standards, we may be disqualified from selling our products to such customers, or may otherwise be at a competitive disadvantage, either of which would harm our business, results of operations, and financial condition.

If our customers are unable to implement our products successfully, customer perceptions of our offerings may be impaired or our reputation and brand may suffer.

Our products are deployed in a wide variety of IT environments, including large-scale, complex infrastructures. Some of our customers have experienced difficulties implementing our products in the past and may experience implementation difficulties in the future. If our customers are unable to implement our products successfully, customer perceptions of our offerings may be impaired or our reputation and brand may suffer.

In addition, in order for our products to achieve their functional potential, our products must effectively integrate into our customers' IT infrastructures, which have different specifications, utilize varied protocol standards, deploy products from multiple different vendors and contain multiple layers of products that have been added over time. Our customers' IT infrastructures are also dynamic, with a myriad of devices and endpoints entering and exiting the customers' IT systems on a regular basis, and our products must be able to effectively adapt to and track these changes.

Any failure by our customers to appropriately implement our products or any failure of our products to effectively integrate and operate within our customers' IT infrastructures could result in customer dissatisfaction, impact the perceived reliability of our products, result in negative press coverage, negatively affect our reputation and harm our financial results.

Future acquisitions could disrupt our business and harm our financial condition and operating results.

In order to remain competitive, we have in the past and may in the future seek to acquire additional businesses, products or technologies. The environment for acquisitions in our industry is very competitive and acquisition candidate purchase prices will likely exceed what we would prefer to pay. We also may not find suitable acquisition candidates, and acquisitions we complete may be unsuccessful.

Achieving the anticipated benefits of future acquisitions will depend in part upon whether we can integrate acquired operations, products and technology in a timely and cost-effective manner and successfully market and sell these as new product offerings, including, for example, the operations, products and technology acquired in connection with our acquisition of Komand in July 2017. The acquisition of Komand's orchestration and automation technology is intended to help our customers automatically identify risks, respond to incidents and address issues faster and with less human intervention. The process of integrating a new business or technology into our product offerings, such as Komand and its technology, requires, among other things, coordination of administrative, sales and marketing, accounting and finance functions, and expansion of information and management systems. Integration of any future acquisition may prove to be difficult due to the necessity of coordinating geographically separate organizations and integrating personnel with disparate business backgrounds and accustomed to different corporate cultures. The acquisition and integration processes are complex, expensive and time consuming, and may cause an interruption of, or loss of momentum in, product development, sales activities and operations of both companies. Further, we may be unable to retain key personnel of an acquired company following the acquisition, including certain employees which we acquired in connection with our acquisition of Komand. If we are unable to effectively execute or integrate acquisitions, our business, financial condition and operating results could be adversely affected.

In addition, we may only be able to conduct limited due diligence on an acquired company's operations or may discover that the products or technology acquired were not as capable as we thought based upon the initial or limited due diligence. Following an acquisition, we may be subject to unforeseen liabilities arising from an acquired company's past or present operations and these liabilities may be greater than the warranty and indemnity limitations that we negotiate. Any unforeseen liability that is greater than these warranty and indemnity limitations could have a negative impact on our financial condition.

If we are unable to maintain successful relationships with our channel partners, our business operations, financial results and growth prospects could be adversely affected.

Our success is dependent in part upon establishing and maintaining relationships with a variety of channel partners that we utilize to extend our geographic reach and market penetration. We anticipate that we will continue to rely on these partners in order to help facilitate sales of our offerings as part of larger purchases in the United States and to grow our business internationally. For 2017 and 2016, we derived approximately 37% of our revenue from sales of products and professional services through channel partners, and the percentage of revenue derived from channel partners may increase in future periods. Our agreements with our channel partners are non-exclusive and do not prohibit them from working with our competitors or offering competing solutions, and some of our channel partners may have more established relationships with our competitors. If our channel partners choose to place greater emphasis on products of their own or those offered by our competitors or do not effectively market and sell our products and professional services, our ability to grow our business and sell our products and professional services, particularly in key international markets, may be adversely affected. In addition, our failure to recruit additional channel partners, or any reduction or delay in their sales of our products and professional services or conflicts between channel sales and our direct sales and marketing activities may harm our results of operations. Finally, even if we are successful, our relationships with channel partners may not result in greater customer usage of our products and professional services or increased revenue.

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

We believe that maintaining and enhancing our brand identity is critical to our relationships with our customers and channel partners and to our ability to attract new customers and channel partners. The successful promotion of our brand will depend largely upon our marketing efforts, our ability to continue to offer high-quality offerings and our ability to successfully differentiate our offerings from those of our competitors. Our brand promotion activities may not be successful or yield increased revenues. In addition, independent industry analysts often provide reviews of our offerings, as well as those of our competitors, and perception of our offerings in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive as compared to those of our competitors' products and professional services, our brand may be adversely affected.

Moreover, it may be difficult to maintain and enhance our brand in connection with sales through channel or strategic partners. The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive, as we expand into new markets and as more sales are generated through our channel partners. To the extent that these activities yield increased revenues, these revenues may not offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, we may have reduced pricing power relative to competitors with stronger brands, and we could lose customers and channel partners, all of which would adversely affect our business operations and financial results.

Failure to maintain high-quality customer support could have a material adverse effect on our business.

Once our products are deployed within our customers' networks, our customers depend on our technical and other customer support services to resolve any issues relating to the implementation and maintenance of our products. If we do not effectively assist our customers in deploying our products, help our customers quickly resolve post-deployment issues or provide effective ongoing support, our ability to renew or sell additional products or professional services to existing customers would be adversely affected and our reputation with potential customers could be damaged. Further, to the extent that we are unsuccessful in hiring, training and retaining adequate technical and customer success personnel, our ability to provide adequate and timely support to our customers will be negatively impacted, and our customers' satisfaction with our offerings will be adversely affected.

We rely on third-party software to operate certain functions of our business.

We rely on software vendors to operate certain critical functions of our business, including financial management and human resource management. 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 and our processes for managing sales of our solutions and supporting our customers could be impaired until equivalent services, if available, are identified, obtained and integrated, all of which could harm our business.

We use third-party software and data that may be difficult to replace or that may cause errors or failures of our solutions, which could lead to lost customers or harm to our reputation and our operating results.

We license third-party software and security and compliance data from various third parties that are used in our solutions in order to deliver our offerings. In the future, this software or data may not be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of this software or data could result in delays in the provisioning of our offerings until equivalent technology or data is either developed by us, or, if available, is identified, obtained and integrated, which could harm our business. In addition, any errors or defects in or failures of this third-party software could result in errors or defects in our products or cause our products to fail, which could harm our business and be costly to correct. Many of these providers attempt to impose limitations on their liability for such errors, defects or failures, and if enforceable, we may have additional liability to our customers or third-party providers that could harm our reputation and increase our operating costs.

We will need to maintain our relationships with third-party software and data providers, and to obtain software and data from such providers that do not contain errors or defects. Any failure to do so could adversely impact our ability to deliver effective solutions to our customers and could harm our operating results.

Our products contain third-party open source software components, and our failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our products.

Our products contain software licensed to us by third parties under so-called "open source" licenses, including the GNU General Public License, or GPL, the GNU Lesser General Public License, or LGPL, the BSD License, the Apache License and others. From time to time, there have been claims against companies that distribute or use open source software in their products and services, asserting that such open source software infringes the claimants' intellectual property rights. We could be subject to suits by parties claiming that what we believe to be licensed open source software infringes their intellectual property rights. Use and distribution of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. In addition, certain open source licenses require that source code for software programs that are subject to the license be made available to the public and that any modifications or derivative works to such open source software continue to be licensed under the same terms.

Although we monitor our use of open source software in an effort both to comply with the terms of the applicable open source licenses and to avoid subjecting our products to conditions we do not intend, the terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our products. The terms of certain open source licenses require us to release the source code of our applications and to make our applications available under those open source licenses if we combine or distribute our applications with open source software in a certain manner. In the event that portions of our applications are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all, or a portion of, those applications or otherwise be limited in the licensing of our applications. Disclosing our proprietary source code could allow our competitors to create similar products with lower development effort and time and ultimately, could result in a loss of sales for us. Disclosing the source code of our proprietary software could also make it easier for cyber attackers and other third parties to discover vulnerabilities in or to defeat the protections of our products, which could result in our products failing to provide our customers with the security they expect. Any of these events could have a material adverse effect on our business, operating results and financial condition.

Our technology alliance partnerships expose us to a range of business risks and uncertainties that could have a material adverse impact on our business and financial results.

We have entered, and intend to continue to enter, into technology alliance partnerships with third parties to support our future growth plans, including with certain of our actual or potential competitors. For example, through these technology alliance partnerships, we integrate with certain third-party application program interfaces, or APIs, which enhance our data collection capabilities in our customers' IT environments. If these third parties no longer allow us to integrate with their APIs, or if we determine not to maintain these integrations, the functionality of our products may be reduced and our products may not be as marketable to certain potential customers. Technology alliance partnerships require significant coordination between the parties involved, particularly if a partner requires that we integrate its products with our products. Further, we have invested and will continue to invest significant time, money and resources to establish and maintain relationships with our technology alliance partners, but we have no assurance that any particular relationship will continue for any specific period of time, result in new offerings that we can effectively commercialize or result in enhancements to our existing offerings. In addition, while we believe that entering into technology alliance partnerships with certain of our actual or potential competitors is currently beneficial to our competitive position in the market, such partnerships may also give our competitors insight into our offerings that they may not otherwise have, thereby allowing them to compete more effectively against us.

The continued utility of Metasploit depends in part on the continued contributions from security researchers.

Our Metasploit product relies on information provided by an active community of security researchers who contribute new exploits, attacks and vulnerabilities. We expect that the continued contributions from these third parties will both enhance the robustness of Metasploit and also support our sales and marketing efforts. However, to the extent that the information provided by these third parties is inaccurate or malicious, the potential for false indications of security vulnerabilities and susceptibility to attack increases, which could adversely impact market acceptance of our products and professional services and could result in negative publicity, loss of customers and sales and increased costs to remedy any problem. Further, to the extent that our community of third parties is reduced in size or participants become less active, we may lose valuable insight into the dynamic threat landscape and our ability to quickly respond to new exploits, attacks and vulnerabilities may be reduced.

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

Selling to government entities can be highly competitive, expensive and time consuming, and often requires significant upfront time and expense without any assurance that we will win a sale. Government demand and payment for our products and professional services may also be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our offerings. Government entities also have heightened sensitivity surrounding the purchase of cyber security solutions due to the critical importance of their IT infrastructures, the nature of the information contained within those infrastructures and the fact that they are highly-visible targets for cyber attacks. Accordingly, increasing sales of our products and professional services to government entities may be more challenging than selling to commercial organizations. Further, in the course of providing our products and professional services to government entities, our employees and those of our channel partners may be exposed to sensitive government information. Any failure by us or our channel partners to safeguard and maintain the confidentiality of such information could subject us to liability and reputational harm, which could materially and adversely affect our results of operations and financial performance.

We are exposed to fluctuations in currency exchange rates, which could negatively affect our financial condition and results of operations.

Our reporting currency is the U.S. dollar and we generate a majority of our revenue in U.S. dollars. However, for the years ended December 31, 2017 and 2016, we incurred 13% of our expenses outside of the United States in foreign currencies, primarily the British pound sterling and euro, principally with respect to salaries and related personnel expenses associated with our sales and research and development operations. Additionally, for the years ended December 31, 2017 and 2016, 5% of our revenue was generated in foreign currencies. Accordingly, changes in exchange rates may have an adverse effect on our business, operating results and financial condition. The exchange rate between the U.S. dollar and foreign currencies has fluctuated substantially in recent years and may continue to fluctuate substantially in the future. To date, we have not engaged in any hedging strategies, and any such strategies, such as forward contracts, options and foreign exchange swaps related to transaction exposures that we may implement to mitigate this risk may not eliminate our exposure to foreign exchange fluctuations.

Changes in financial accounting standards may adversely impact our reported results of operations.

A change in accounting standards or practices, in particular with respect to revenue recognition, could adversely affect our operating results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. For example, in May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States of America. We adopted this new standard on the effective date of January 1, 2018, utilizing the modified retrospective method. While we are in the process of finalizing our evaluation of the total impact of the new revenue standard, we believe the adoption of this new standard will have a material impact on our consolidated financial statements and disclosures. See Note 2 of the notes to our consolidated financial statements included in this Annual Report on Form 10-K for additional information on the new standard and its potential impact on us. These and other changes to existing rules or the questioning of current practices may adversely affect our operating results.

We may require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features or enhance our products, 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 those of holders of our common stock. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be adversely affected.

Risks Related to Government Regulation, Data Collection, Intellectual Property, Litigation and Catastrophic Events

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

Like other U.S.-based IT security products, our products are subject to U.S. export control and import laws and regulations, including the U.S. Export Administration Regulations and various economic and trade sanctions regulations administered by the U.S. Treasury Department’s Office of Foreign Assets Control. Exports of these products must be made in compliance with these laws and regulations. Compliance with these laws and regulations is complex, and if we were to fail to comply with these laws and regulations, we and certain of our employees could be subject to substantial civil and criminal penalties, including fines for our company and responsible employees or managers, and, in extreme cases, incarceration of responsible employees and managers and the possible loss of export privileges. Complying with export control laws and regulations, including obtaining the necessary licenses or authorizations, for a particular sale may be time-consuming, is not guaranteed and may result in the delay or loss of sales opportunities. Changes in export or import laws and regulations, shifts in the enforcement or scope of existing laws and regulations, or changes in the countries, governments, persons, products or services targeted by such laws and regulations, could also result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers. A decreased use of our products or limitation on our ability to export or sell our products could adversely affect our business, financial condition and results of operations.

We also incorporate encryption technology into our products. These encryption products may be exported outside of the United States only with the required export authorizations, including by a license, a license exception or other appropriate government authorizations, including the filing of a product classification request. In addition, various countries regulate the import and domestic use of certain encryption technology, including through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries. Governmental regulation of encryption technology and regulation of imports or exports of encryption products, or our failure to obtain required import or export approval for our products, when applicable, could harm our international sales and adversely affect our revenue. Compliance with applicable laws and regulations regarding the export and import of our products, including with respect to new products or changes in existing products, may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products globally or, in some cases, could prevent the export or import of our products to certain countries, governments, entities or persons altogether.

Further, U.S. export control laws and economic sanctions prohibit the shipment of certain products and services to U.S. embargoed or sanctioned countries, governments or persons. Although we take precautions to prevent our products from being provided to those subject to U.S. sanctions, such measures may be circumvented and we have in the past identified limited instances of non-compliance with these rules. After these instances were disclosed to U.S. authorities, those authorities decided to not bring enforcement actions against or impose penalties on us.

Finally, there are currently multinational efforts underway as part of the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Goods and Technologies, or the Wassenaar Arrangement, to impose additional restrictions on certain cyber security products. Such controls have been implemented by many Wassenaar members, but are not currently in effect in the United States and may undergo substantial modification before becoming effective. To implement the controls under the Wassenaar Arrangement in the United States, the U.S. Department of Commerce's Bureau of Industry and Security, or BIS, would have to amend the Export Administration Regulations, or the EAR. Such amendments could include changes that impose new licensing, approval and other requirements on our commercial Metasploit products and thereby put us at a disadvantage in competing for international sales. We are closely monitoring the potential implications of the Wassenaar Arrangement on the commercial versions of Metasploit and are actively working with BIS and other U.S. government stakeholders in connection with the implementation of the controls under the Wassenaar Arrangement.

Failure to comply with governmental laws and regulations could harm our business.

Our business is subject to regulation by various federal, state, local and foreign governments. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, injunctions or other collateral consequences. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, reputation, results of operations and financial condition.

Because our products collect and store user and related information, domestic and international privacy and cyber security concerns, and other laws and regulations, could result in additional costs and liabilities to us or inhibit sales of our products.

We, and our customers, are subject to a number of domestic and international laws and regulations that apply to online services and the internet generally. These laws, rules and regulations address a range of issues including data privacy and cyber security, and restrictions or technological requirements regarding the collection, use, storage, protection, retention or transfer of data. The regulatory framework for online services, data privacy and cyber security issues worldwide can vary substantially from jurisdiction to jurisdiction, is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws, rules and regulations regarding the collection, use, storage and disclosure of information, web browsing and geolocation data collection, data analytics, cyber security and breach notification procedures. Interpretation of these laws, rules and regulations and their application to our products and professional services in the United States and foreign jurisdictions is ongoing and cannot be fully determined at this time.

In the United States, these include rules and regulations promulgated under the authority of the Federal Trade Commission, the Electronic Communications Privacy Act, Computer Fraud and Abuse Act, HIPAA, the Gramm Leach Bliley Act and state breach notification laws, as well as regulator enforcement positions and expectations reflected in federal and state regulatory actions, settlements, consent decrees and guidance documents. Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal frameworks with which we, and/or our customers, must comply, including the EU Data Protection Directive 95/46/EC, or the Directive, established in the European Union and local EU Member State legislation implementing the Directive, such as the Data Protection Act in the United Kingdom. In addition, in May 2018, the European Union's General Data Protection Regulation, or GDPR, which is designed to update current privacy laws to better reflect the digital economy and to unify data protection within the European Union under a single law, will go into effect and replace the Directive. The GDPR will likely result in significantly greater risks, compliance burdens and costs for companies with users and operations in the European Union. Under the GDPR, fines of up to 20 million euros or up to 4% of the annual global turnover of the infringer, whichever is greater, could be imposed for significant non-compliance. These laws are broad in their application and apply when we do business with EU-based customers and our U.S.-based customers that collect and use personal data that originates from individuals resident in the EU. They also apply to transfers of information between us and our European Union-based subsidiaries, including employee information. Further, many U.S. federal and state and other foreign government bodies and agencies have introduced, and are currently considering, additional laws and regulations. Non-compliance with these laws could result in penalties or significant legal liability. We could be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations or financial condition.

In addition, to facilitate the transfer of both customer and personnel data from the European Union to the United States, in the past we have relied on the EU-U.S. Safe Harbor Framework, which required U.S.-based companies to provide assurance that they were adhering to relevant European standards for data protection. On October 6, 2015, the Court of Justice of the European Union, or CJEU, invalidated the EU-U.S. Safe Harbor Framework. On February 2, 2016, the U.S. and E.U. announced agreement on a new framework for transatlantic data flows entitled the EU-US Privacy Shield and we self-certified under the EU-US Privacy Shield framework on December 20, 2016. However, it is possible that Privacy Shield may be challenged in EU courts, so there is some uncertainty regarding its future validity and our ability to rely on it for EU to US data transfers. Non-compliance could result in the EU data protection authorities imposing a number of different sanctions on us until we do, including fines and, ultimately, a prohibition on transfers.

In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or contractually apply to us. Because the interpretation and application of privacy and data protection laws are still uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing practices or the features of our products. We may also be subject to claims of liability or responsibility for the actions of third parties with whom we interact or upon whom we rely in relation to various services, including but not limited to vendors and business partners. If so, in addition to the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our products, which could have an adverse effect on our business. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business.

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

Further, there are active legislative discussions regarding the implementation of laws or regulations that could restrict the manner in which security research is conducted and that could restrict or possibly bar the conduct of penetration testing and the use of exploits, which are an essential component of our Metasploit product and our business strategy more generally. Our failure to comply with existing laws, rules or regulations, changes to existing laws or their interpretation, or the imposition of new laws, rules or regulations, could result in additional costs and may necessitate changes to our business practices and divergent operating models, which may have a material and adverse impact on our business, results of operations, and financial condition.

Failure to protect our proprietary technology and intellectual property rights could substantially harm our business and operating results.

Our future success and competitive position depend in part on our ability to protect our intellectual property and proprietary technologies. To safeguard these rights, we rely on a combination of patent, trademark, copyright and trade secret laws and contractual protections in the United States and other jurisdictions, all of which provide only limited protection and may not now or in the future provide us with a competitive advantage.

We cannot assure you that any patents will issue from any patent applications, that patents that issue from such applications will give us the protection that we seek or that any such patents will not be challenged, invalidated, or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers. We have registered the “Rapid7,” “Nexpose” and “Metasploit” names and logos in the United States and certain other countries. We have registrations and/or pending applications for additional marks in the United States and other countries; however, we cannot assure you that any future trademark registrations will be issued for pending or future applications or that any registered trademarks will be enforceable or provide adequate protection of our proprietary rights. We also license software from third parties for integration into our products, including open source software and other software available on commercially reasonable terms. We cannot assure you that such third parties will maintain such software or continue to make it available.

In order to protect our unpatented proprietary technologies and processes, we rely on trade secret laws and confidentiality agreements with our employees, consultants, channel partners, vendors and others. Despite our efforts to protect our proprietary technology and trade secrets, unauthorized parties may attempt to misappropriate, reverse engineer or otherwise obtain and use them. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, the contractual provisions that we enter into may not prevent unauthorized use or disclosure of our proprietary technology or intellectual property rights and may not provide an adequate remedy in the event of unauthorized use or disclosure of our proprietary technology or intellectual property rights. Moreover, policing unauthorized use of our technologies, trade secrets and intellectual property is difficult, expensive and time-consuming, particularly in foreign countries where the laws may not be as protective of intellectual property rights as those in the United States and where mechanisms for enforcement of intellectual property rights may be weak. We may be unable to determine the extent of any unauthorized use or infringement of our solutions, technologies or intellectual property rights.

From time to time, legal action by us may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the intellectual property rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could negatively affect our business, operating results and financial condition.

Assertions by third parties of infringement or other violations by us of their intellectual property rights, whether or not correct, could result in significant costs and harm our business and operating results.

Patent and other intellectual property disputes are common in our industry. We are periodically involved in disputes brought by non-practicing entities alleging patent infringement and we may, from time to time, be involved in other such disputes in the ordinary course of our business. Some companies, including some of our competitors, own large numbers of patents, copyrights and trademarks, which they may use to assert claims against us. Third parties have in the past and may in the future assert claims of infringement, misappropriation or other violations of intellectual property rights against us. They may also assert such claims against our customers or channel partners, whom we typically indemnify against claims that our solutions infringe, misappropriate or otherwise violate the intellectual property rights of third parties. As the numbers of products and competitors in our market increase and overlaps occur, claims of infringement, misappropriation and other violations of intellectual property rights may increase. Any claim of infringement, misappropriation or other violation of intellectual property rights by a third party, even those without merit, could cause us to incur substantial costs defending against the claim and could distract our management from our business.

The patent portfolios of our most significant competitors are larger than ours. This disparity may increase the risk that they may sue us for patent infringement and may limit our ability to counterclaim for patent infringement or settle through patent cross-licenses. In addition, future assertions of patent rights by third parties, and any resulting litigation, may involve patent holding companies or other adverse patent owners who have no relevant product revenues and against whom our own patents may therefore provide little or no deterrence or protection. There can be no assurance that we will not be found to infringe or otherwise violate any third-party intellectual property rights or to have done so in the past.

An adverse outcome of a dispute may require us to:

- pay substantial damages, including treble damages, if we are found to have willfully infringed a third party’s patents or copyrights;
- cease making, licensing or using solutions that are alleged to infringe or misappropriate the intellectual property of others;
- expend additional development resources to attempt to redesign our solutions or otherwise develop non-infringing technology, which may not be successful;
- enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or intellectual property rights; and
- indemnify our partners and other third parties.

In addition, royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Some licenses may also be non-exclusive, and therefore, our competitors may have access to the same technology licensed to us. Any of the foregoing events could seriously harm our business, financial condition and results of operations.

Our intercompany relationships are subject to complex transfer pricing regulations, which may be challenged by taxing authorities.

We generally conduct our international operations through wholly-owned subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. In 2016, we completed the reorganization of our corporate structure and intercompany relationships to more closely align our corporate organization with the expansion of our international business activities. Although we anticipate achieving a reduction in our overall effective tax rate in the future as a result of this reorganized corporate structure, we may not realize any benefits. Our intercompany relationships are and will continue to be subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. In addition, if the intended tax treatment of our reorganized corporate structure is not accepted by the applicable taxing authorities, changes in tax law negatively impact the structure or we do not operate our business consistent with the structure and applicable tax laws and regulations, we may fail to achieve any tax advantages as a result of the reorganized corporate structure, and our future operating results and financial condition may be negatively impacted.

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

As of December 31, 2017, we had federal and state net operating loss carryforwards, or NOLs, of $116.6 million and $81.0 million, respectively, available to offset future taxable income, which expire in various years beginning in 2030 if not utilized. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. Under the provisions of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, substantial changes in our ownership may limit the amount of pre-change NOLs that can be utilized annually in the future to offset taxable income. Section 382 of the Internal Revenue Code imposes limitations on a company's ability to use NOLs if a company experiences a more-than-50-percent ownership change over a three-year testing period. Based upon our analysis as of December 31, 2017, we determined that although a small limitation on our historical NOLs exists, we do not expect this limitation to impair our ability to use our NOLs prior to expiration. However, if changes in our ownership occur in the future, our ability to use our NOLs may be further limited. For these reasons, we may not be able to utilize a material portion of the NOLs, even if we achieve profitability. If we are limited in our ability to use our NOLs in future years in which we have taxable income, we will pay more taxes than if we were able to fully utilize our NOLs. This could adversely affect our operating results, cash balances and the market price of our common stock.

Comprehensive tax reform bills could adversely affect our business and financial condition.

The U.S. government has recently enacted comprehensive tax legislation that includes significant changes to the taxation of business entities. These changes include, among others, (i) a permanent reduction to the corporate income tax rate, (ii) a partial limitation on the deductibility of business interest expense, (iii) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with certain rules designed to prevent erosion of the U.S. income tax base) and (iv) a one-time tax imposed at lower rates on accumulated offshore earnings held in cash and illiquid assets, with the latter taxed at a further reduced rate. Notwithstanding the reduction in the corporate income tax rate, the overall impact of this tax reform is uncertain, and our business and financial condition could be adversely affected.

Our operating results may be harmed if we are required to collect sales and use or other related taxes for our products and professional services in jurisdictions where we have not historically done so.

Taxing jurisdictions, including state, local and foreign taxing authorities, have differing rules and regulations governing sales and use or other taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, significant judgment is required in evaluating our tax positions and our worldwide provision for taxes. While we believe that we are in material compliance with our obligations under applicable taxing regimes, one or more states, localities or countries may seek to impose additional sales or other tax collection obligations on us, including for past sales. It is possible that we could face sales tax audits and that such audits could result in tax-related liabilities for which we have not accrued. A successful assertion that we should be collecting additional sales or other taxes on our offerings in jurisdictions where we have not historically done so and do not accrue for sales taxes could result in substantial tax liabilities for past sales, discourage customers from purchasing our offerings or otherwise harm our business and operating results.

In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations, including those relating to income tax nexus, by recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, by changes in foreign currency exchange rates, or by changes in the valuation of our deferred tax assets and liabilities. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made.

Our business is subject to the risks of earthquakes, fire, power outages, floods and other catastrophic events, and to interruption by manmade problems such as terrorism.

A significant natural disaster, such as an earthquake, fire or a flood, or a significant power outage could have a material adverse impact on our business, operating results and financial condition. In addition, natural disasters could affect our channel partners' ability to perform services for us on a timely basis. In the event we or our channel partners are hindered by any of the events discussed above, our ability to provide our products or professional services to customers could be delayed.

In addition, our facilities and those of our third-party data centers and hosting providers are vulnerable to damage or interruption from human error, intentional bad acts, pandemics, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. The occurrence of a natural disaster, power failure or an act of terrorism, vandalism or other misconduct, a decision by a third party to close a facility on which we rely without adequate notice, or other unanticipated problems could result in lengthy interruptions in provision or delivery of our products, potentially leaving our customers vulnerable to cyber attacks. The occurrence of any of the foregoing events could damage our systems and hardware or could cause them to fail completely, and our insurance may not cover such events or may be insufficient to compensate us for the potentially significant losses, including the potential harm to the future growth of our business, that may result from interruptions in our service as a result of system failures.

All of the aforementioned risks may be exacerbated if our disaster recovery plans or the disaster recovery plans established for our third-party data centers and hosting providers prove to be inadequate. To the extent that any of the above results in delayed or reduced customer sales, our business, financial condition and results of operations could be adversely affected.

Risks Related to our Common Stock

The market price of our common stock has been and is likely to continue to be volatile.

The market price of our common stock may be highly volatile and may fluctuate substantially as a result of a variety of factors, some of which are related in complex ways. Since shares of our common stock were sold in our initial public offering, or IPO, in July 2015 at a price of $16.00 per share, our stock price has ranged from an intraday low of $9.05 to an intraday high of $27.45 through March 1, 2018. Factors that may affect the market price of our common stock include:

- actual or anticipated fluctuations in our financial condition and operating results;
- variance in our financial performance from expectations of securities analysts;
- changes in the prices of our products and professional services;
- changes in our projected operating and financial results;
- changes in laws or regulations applicable to our products or professional services;
- announcements by us or our competitors of significant business developments, acquisitions or new offerings;
- our involvement in any litigation;
- our sale of our common stock or other securities in the future;
- changes in senior management or key personnel;
- trading volume of our common stock;
- changes in the anticipated future size and growth rate of our market; and
- general economic, regulatory and market conditions.

Recently, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may negatively impact the market price of our common stock. In the past, companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future, which could result in substantial costs and divert our management's attention.

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.

We have provided and may continue to provide guidance about our business, future operating results and other business metrics. In developing this guidance, our management must make certain assumptions and judgments about our future performance. Furthermore, analysts and investors may develop and publish their own projections of our business, which may form a consensus about our future performance. Our business results may vary significantly from such guidance or that consensus due to a number of factors, many of which are outside of our control, and which could adversely affect our operations and operating results. Furthermore, if we make downward revisions of our previously announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors or other interested parties, the price of our common stock would decline.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If our financial performance fails to meet analyst estimates or one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

We do not intend to pay dividends for the foreseeable future and, as a result, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Concentration of ownership among our existing directors, executive officers and holders of 10% or more of our outstanding common stock may prevent minority investors from influencing significant corporate decisions.

As of March 1, 2018, our directors, executive officers and holders of more than 10% of our common stock, some of whom are represented on our board of directors, together with their affiliates, beneficially owned 27% of the voting power of our outstanding capital stock. As a result, these stockholders, acting together, have substantial influence over the outcome of matters submitted to our stockholders for approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could delay, defer or prevent a change in control of our company, a merger, consolidation, takeover or other business combination, which in turn, could materially and adversely affect the market price of our common stock.

Substantial future sales of our common stock in the public market, or the perception that these sales may occur, could cause our share price to decline.

Sales of a substantial amount of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. All outstanding shares of our common stock are freely tradable without restriction under the Securities Act of 1933, as amended, or the Securities Act, except for any shares of our common stock that may be held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities Act, which are subject to restrictions under the Securities Act, or that may be issued under our equity incentive plans subject to vesting requirements. We are unable to predict the effect that these sales, particularly sales by our directors, executive officers, and significant stockholders, may have on the prevailing market price of our common stock.

We have filed registration statements on Form S-8 under the Securities Act to register shares of common stock that may be issued under our equity incentive plans from time to time. Shares registered under these registration statements are available for sale in the public market upon issuance subject to vesting arrangements and exercise of options, as well as Rule 144 in the case of our affiliates. We also filed a "shelf" registration statement on Form S-3 under the Securities Act in May 2017 that became effective in June 2017, allowing us, from time to time, to offer up to $50 million of shares of common stock and to cover the resale of up to an aggregate of 18,419,274 shares of our common stock by selling stockholders to be named in the applicable prospectus supplement to the shelf registration statement, from time to time. In January 2018, we completed a public offering of 5,950,000 shares of our common stock, of which 1,500,000 shares of common stock were sold by us and 4,450,000 shares of common stock were sold by certain existing stockholders (including 770,000 shares sold pursuant to the underwriter's option).

Certain existing holders of our common stock have the right, subject to various conditions and limitations, to request we include their shares of our common stock in registration statements we may file relating to our securities, including the effective shelf registration statement described above. If the offer and sale of these shares are registered, they will be freely tradable without restriction under the Securities Act. In the event such registration rights are exercised and a large number of shares of common stock are sold in the public market, such sales could reduce the trading price of our common stock. In June 2017, we filed a prospectus supplement to the effective registration statement described above with respect to the sale of up to 2,800,000 shares of our common stock by two of our significant stockholders, which facilitated the resale by those holders of a portion of the shares of our common stock they hold.

In addition, in the future, we may issue common stock or other securities in connection with a capital raise or acquisitions. The number of new shares of our common stock issued in connection with a capital raise or acquisition could constitute a material portion of our then-outstanding shares of our common stock.

We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act. For as long as we qualify as an emerging growth company, we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions and provide reduced disclosure. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

We are obligated to maintain proper and effective internal controls over financial reporting and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting on an annual basis. This assessment includes disclosure of any material weaknesses identified by our management in our internal control over financial reporting. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective. While we have established certain procedures and control over our financial reporting processes, we cannot assure you that these efforts will prevent restatements of our financial statements in the future.

Our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting until our first annual report required to be filed with the SEC following the date we no longer qualify as an "emerging growth company," as defined in the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating. We may not be able to remediate any future material weaknesses, or to complete our evaluation, testing and any required remediation in a timely fashion. We will be required to disclose significant changes made in our internal control procedures on a quarterly basis.

Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition or results of operations. If we are unable to assert that our internal control over financial reporting is effective or our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls when it is required to issue such opinion, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the Nasdaq Stock Market, the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

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

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

- authorize our board of directors to issue preferred stock without further stockholder action and with voting liquidation, dividend and other rights superior to our common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent, and limit the ability of our stockholders to call special meetings;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for director nominees;
- establish that our board of directors is divided into three classes, with directors in each class serving three-year staggered terms;
- require the approval of holders of two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our amended and restated bylaws or amend or repeal the provisions of our amended and restated certificate of incorporation regarding the election and removal of directors and the ability of stockholders to take action by written consent or call a special meeting;
- prohibit cumulative voting in the election of directors; and
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, who are responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any of the foregoing provisions could limit could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our common stock.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Pursuant to our amended and restated certificate of incorporation, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws or (4) any action asserting a claim governed by the internal affairs doctrine. Our amended and restated certificate of incorporation further provides that any person or entity purchasing or otherwise acquiring any interest in shares of our common stock is deemed to have notice of and consented to the foregoing provision. The forum selection clause in our amended and restated certificate of incorporation may limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our corporate headquarters occupy approximately 75,000 square feet in Boston, Massachusetts under an operating lease that expires in August 2019. In November 2017, we entered into an agreement for a new facility in Boston, Massachusetts which will occupy approximately 147,000 square feet under a lease which is expected to commence on June 1, 2019 and expire in November 2029. We have additional U.S. offices including Los Angeles, California; Cambridge, Massachusetts; Austin, Texas; and Alexandria, Virginia. We also lease various international offices including Toronto, Canada; Reading, United Kingdom; Belfast, Northern Ireland; Dublin, Ireland; and Singapore.

We believe that our current facilities are suitable and adequate to meet our current needs. We intend to add new facilities or expand existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

Item 3. Legal Proceedings.

From time to time, we may be a party to litigation or subject to claims incident to the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information

Our common stock is listed on the Nasdaq Global Market under the symbol "RPD" since July 17, 2015. Our initial public offering was priced at $16.00 per share on July 16, 2015.

The following table sets forth the reported high and low sales prices of our common stock for the periods indicated, as quoted on the Nasdaq Global Market:

Year Ended December 31, 2017:	**High**	**Low**
First quarter	$ 15.96	$ 12.20
Second quarter	$ 19.29	$ 14.36
Third quarter	$ 17.90	$ 14.75
Fourth quarter	$ 20.25	$ 17.08

Year Ended December 31, 2016:	**High**	**Low**
First quarter	$ 16.75	$ 9.05
Second quarter	$ 14.82	$ 10.82
Third quarter	$ 19.29	$ 11.55
Fourth quarter	$ 18.30	$ 10.63

As of December 31, 2017, there were 115 holders of record of our common stock, including Cede & Co., a nominee for The Depository Trust Company, or DTC, which holds shares of our common stock on behalf of an indeterminate number of beneficial owners. All of the shares of common stock held by brokerage firms, banks and other financial institutions as nominees for beneficial owners are deposited into participant accounts at DTC, and are considered to be held of record by Cede & Co. as one stockholder. Because many of our shares are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividends

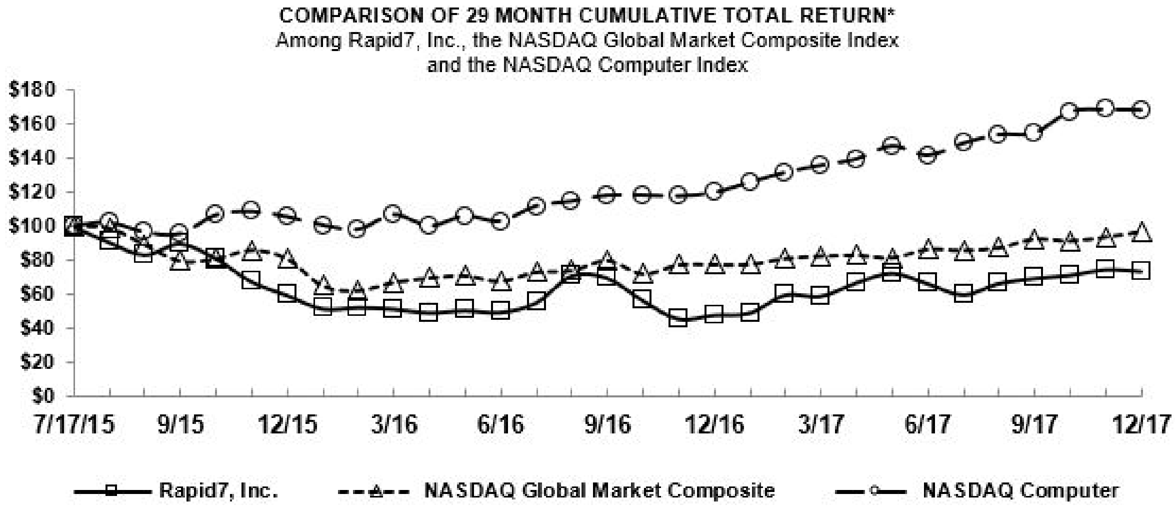
We have never declared or paid, and do not anticipate declaring or paying in the foreseeable future, any cash dividends on our common stock. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors, subject to applicable laws, and will depend on then existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors our board of directors may deem relevant.

Stock Performance Graph

The following shall not be deemed incorporated by reference into any of our other filings under the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, except to the extent we specifically incorporate it by reference into such filings.

The following graph shows a comparison from July 17, 2015 (the date our common stock commenced trading on the Nasdaq Global Market) through December 31, 2017 of the cumulative total return for an investment of $100 in our common stock, the Nasdaq Global Market and the Nasdaq Computer Index. Data for the Nasdaq Global Market and the Nasdaq Computer Index assume reinvestment of dividends.

The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.



	July 17, 2015	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
Rapid7, Inc.	$ 100.00	$ 89.99	$ 59.85	$ 51.70	$ 49.76	$ 69.82	$ 48.14	$ 59.26	$ 66.57	$ 69.62	$ 73.81
Nasdaq Global Market Composite	100.00	79.58	81.67	67.59	67.13	78.33	75.93	81.02	84.92	90.86	95.11
Nasdaq Computer	100.00	95.13	105.13	106.53	102.79	118.13	117.72	135.85	148.80	154.96	168.48

Recent Sales of Unregistered Securities

None.

Use of Proceeds from Initial Public Offering of Common Stock

Our initial public offering of common stock was effected through the filing of a Registration Statement on Form S-1 (File No. 333-204874), which was declared or became effective on July 16, 2015. There has been no material change in the use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) and other periodic reports previously filed with the SEC.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

The following table provides information about our purchases of our equity securities during the three months ended December 31, 2017:

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (dollars in thousands)
October 1, 2017 to October 31, 2017	6,610	$ 17.94	—	—
November 1, 2017 to November 30, 2017	—	—	—	—
December 1, 2017 to December 31, 2017	—	—	—	—
Total	6,610	$ 17.94	—	—

(1) Represents the total number of shares of our common stock delivered to us by an employee to satisfy the statutory tax withholding obligations owed in connection with the vesting of restricted stock awards granted to such employee under the Rapid7, Inc. 2015 Equity Incentive Plan, as amended.

Securities Authorized for Issuance Under Equity Compensation Plans

Information about securities authorized for issuance under our equity compensation plan is incorporated herein by reference to Item 12 of Part III of this Annual Report on Form 10-K.

Item 6. Selected Financial Data.

The following selected historical financial data should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our consolidated financial statements and the related notes appearing in Item 8, “Financial Statements and Supplementary Data,” of this Annual Report on Form 10-K to fully understand the factors that may affect the comparability of the information presented below.

The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

The following selected consolidated statements of operations data for the years ended December 31, 2017, 2016, and 2015, and the consolidated balance sheet data as of December 31, 2017 and 2016, have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for the year ended December 31, 2014 and 2013 and the consolidated balance sheet data as of December 31, 2015, 2014 and 2013 have been derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except share and per share data)				
Consolidated Statement of Operations Data:					
Revenue:					
Products	116,748	$ 89,404	$ 63,407	$ 47,030	$ 38,633
Maintenance and support	46,268	37,403	26,903	19,016	14,017
Professional services	37,924	30,630	20,216	10,834	7,380
Total revenue	200,940	157,437	110,526	76,880	60,030
Cost of revenue(1):					
Products	25,583	12,447	6,921	4,557	4,048
Maintenance and support	7,491	7,105	6,002	4,495	3,388
Professional services	23,836	20,173	16,321	9,420	5,442
Total cost of revenue	56,910	39,725	29,244	18,472	12,878
Operating expenses(1):					
Research and development	50,938	47,955	38,746	25,570	21,411
Sales and marketing	111,593	90,524	67,365	49,007	31,779
General and administrative	30,293	28,282	21,731	12,972	12,586
Total operating expense	192,824	166,761	127,842	87,549	65,776
Loss from operations	(48,794)	(49,049)	(46,560)	(29,141)	(18,624)
Interest income (expense), net	775	131	(2,523)	(2,802)	(122)
Other income (expense), net	313	(109)	(278)	(305)	43
Loss before income taxes	(47,706)	(49,027)	(49,361)	(32,248)	(18,703)
Provision for (benefit from) income taxes	(2,236)	(27)	496	379	170
Net loss	(45,470)	(49,000)	(49,857)	(32,627)	(18,873)
Accretion of preferred stock to redemption value	—	—	(35,061)	(52,336)	(33,553)
Beneficial conversion feature relating to IPO participation payment	—	—	(14,161)	—	—
Net loss attributable to common stockholders	(45,470)	$ (49,000)	$ (99,079)	$ (84,963)	$ (52,426)
Net loss per share attributable to common stockholders, basic and diluted	$ (1.06)	$ (1.19)	$ (4.00)	$ (6.65)	$ (4.18)
Weighted-average common shares outstanding, basic and diluted	42,952,950	41,248,473	24,740,480	12,770,916	12,549,266

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

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Stock-based compensation expense:					
Cost of revenue	$ 1,085	$ 610	$ 532	$ 167	$ 67
Research and development	7,205	6,054	5,010	499	426
Sales and marketing	5,756	6,607	3,139	496	249
General and administrative	5,495	4,045	2,004	997	1,305
Total stock-based compensation expense	$ 19,541	$ 17,316	$ 10,685	$ 2,159	$ 2,047
Depreciation and amortization expense:					
Cost of revenue	$ 3,597	$ 2,529	$ 1,890	$ 1,275	$ 1,107
Research and development	1,077	1,080	1,138	1,093	649
Sales and marketing	1,986	1,842	1,617	1,396	675
General and administrative	968	1,274	707	376	200
Total depreciation and amortization expense	$ 7,628	$ 6,725	$ 5,352	$ 4,140	$ 2,631

	As of December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 51,562	$ 53,148	$ 86,553	$ 36,823	$ 20,612
Working capital, excluding deferred revenue	139,604	101,527	109,015	50,359	28,206
Total assets	284,136	243,303	230,561	86,966	59,855
Total deferred revenue	224,500	169,063	130,317	85,056	59,855
Total debt	—	—	—	16,871	16,318
Total liabilities	259,983	201,265	162,486	122,230	92,432
Redeemable convertible preferred stock	—	—	—	211,598	128,444
Total stockholders’ equity (deficit)	24,153	42,038	68,075	(246,862)	(161,021)

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those contained in or implied by any forward-looking statements. Factors that could cause or contribute to these differences include those under "Risk Factors" included in Part I, Item 1A or in other parts of this Annual Report on Form 10-K.

Overview

Organizations of all sizes are faced with a more sophisticated and motivated set of cyber attackers. Coupled with an increasingly complex IT environment and expanding attack surface, which is driven by mobility and a shift to the cloud, security and IT teams are struggling to maintain adequate levels of cyber security, provide visibility to their management teams, and meet increasing regulatory requirements. At the same time, they must navigate a shortage of capable cyber security professionals. Out of these challenges, the concept of Security Operations, or SecOps, is emerging. SecOps is a movement that recognizes that Security and IT Operations must work together to deliver better security and more nimbly adapt to emerging threats, without adding significant resources. SecOps requires solutions that provide visibility, analytics and automation that enable IT, Security and DevOps to work together to achieve significantly higher levels of productivity and success.

Rapid7 is a leading provider of security and IT analytics and automation solutions for SecOps, and is trusted by professionals around the world to provide visibility, analytics and automation to help manage risk, simplify IT complexity and drive innovation. Our solutions, which include vulnerability management, incident detection and response, security information and event management, or SIEM, application security testing, log analytics, and security orchestration and automation, all focus on the critical needs of enterprises for greater visibility into their environments, analytics that provide context to complex data, and automation that enables SecOps teams to scale and more efficiently to address critical security and IT tasks.

We combine our extensive experience in collecting data from an ever-expanding IT environment, our deep insight into attacker behaviors and techniques, and our powerful and proprietary analytics to provide solutions that can quickly and efficiently identify and prioritize risks and active threats in an enterprise's IT environment. Our broad data collection capabilities encompass endpoints, servers, applications, users, cloud-based assets, client devices, network activity, log data and information from third-party applications. We also provide workflows and automations that can enable and accelerate remediation of these risks and active threats. We have designed our solutions to be easy to deploy and use for security and IT teams of all sizes.

We offer analytic solutions across the following three core areas of SecOps:

- Our Vulnerability Management offerings include our industry-leading vulnerability management, web application security testing and attack simulation products. These solutions provide enterprises with comprehensive, yet prioritized, visibility into potential cyber risks across their IT environment. We have also added remediation workflows to help ensure that these risks can be easily mitigated.

- Our Incident Detection and Response solutions are designed to enable organizations to rapidly detect and respond to cyber security incidents and breaches across physical, virtual and cloud assets, including those associated with the behaviors of their users. These solutions combine the collection of massive amounts of data with our core analytics and machine-learning-driven user behavioral analytics to simplify the task of identifying and responding to potential breaches.

- Our IT Analytics and Automation solutions are designed to allow operations teams to quickly gain visibility into their IT environment and facilitate automated workflows to eliminate repetitive, manual and labor-intensive tasks.

Finally, to complement our SecOps products, we offer a range of managed services based on our software solutions and professional services, including incident response services, security advisory services, and deployment and training.

We market and sell our products and professional services to global organizations of all sizes, including mid-market businesses, enterprises, non-profits, educational institutions and government agencies. Our customers span a wide variety of industries such as technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, education, real estate, transportation, government and professional services. As of December 31, 2017, we had over 7,000 customers in 127 countries, including 52% of the Fortune 100. Our revenue was not concentrated with any individual customer or group of customers, and no customer represented more than 2% of our revenue in 2017, 2016 or 2015.

We sell our products and professional services through direct inside and field sales teams and indirect channel partner relationships. Our global sales teams focus on both new customer acquisition as well as up-selling and cross-selling additional offerings to our existing customers. Our sales teams are organized by geography, consisting of the Americas; Europe, the Middle East and Africa, or EMEA; and Asia Pacific, or APAC, as well as by target organization size. Our inside sales team primarily focuses on small and middle-market enterprises, while Fortune 500 enterprises are generally handled by our globally distributed direct field sales teams. Our highly technical sales engineers help define customer use cases, manage solution evaluations and train channel partners.

Recent Developments

On January 30, 2018, we closed on a public offering of 5,950,000 shares of our common stock, of which 1,500,000 shares of common stock were sold by us and 4,450,000 shares of common stock were sold by certain existing stockholders, at an offering price of $22.00 per share, including 770,000 shares pursuant to the underwriters' option to purchase additional shares from the selling stockholders. Our net proceeds from the offering were $30.9 million, after deducting underwriting discounts and commissions and offering expenses payable by us. We did not receive any of the proceeds from the sale of shares by the selling stockholders.

Our Business Model

We have offerings in three key areas: (1) Vulnerability Management, which includes our InsightVM, Nexpose, InsightAppSec, AppSpider and Metasploit products, (2) Incident Detection and Response, which includes our InsightIDR and Managed Detection and Response products as well as our incident response services and (3) IT Analytics and Automation Solutions, which includes our Logentries, InsightOps and Komand products.

We offer our products through a variety of delivery models to meet the needs of our diverse customer base, including:

- Cloud-based subscriptions, which provide our software capabilities to our customers through cloud access and on a Software as a Service basis. Our InsightIDR, InsightVM, InsightAppSec, Logentries and InsightOps products are offered as cloud-based subscriptions, generally with one to three-year terms.

- Managed services, through which we operate our products and provide our capabilities on behalf of our customers. Our Managed Vulnerability Management (InsightVM), Managed Application Security (AppSpider) and Managed Detection and Response (InsightIDR) products are offered on a managed service basis, generally pursuant to one to three-year agreements.

- Licensed software, including both term and perpetual licenses, and the simultaneous sale of maintenance and support. Our Nexpose, Metasploit and AppSpider products are offered through term or perpetual software licenses. Our customers who purchase software licenses also purchase maintenance and support, which provides our customers with telephone and web-based support and ongoing bug fixes and repairs during the term of the maintenance and support agreement, and our customers who purchase our Nexpose and Metasploit products also purchase content subscriptions, which provide them with real-time access to the latest vulnerabilities and exploits. Our maintenance and support and content subscription agreements are typically for one to three-year terms. In addition, our Komand product is offered through term licenses.

We also offer various professional services across all of our offerings, including deployment and training services related to our software and cloud-based products, incident response services and security advisory services. Customers can purchase our professional services together with our product offerings or on a stand-alone basis pursuant to fixed fee or time-and-materials agreements.

An important component of our revenue growth strategy is to have our existing customers renew their agreements with us and purchase additional products from us. To assess our performance against this objective, we monitor the renewal rates of our existing customers. We calculate our renewal rate by dividing the dollar value of renewed customer agreements, including upsells and cross-sells of additional products, but excluding professional services and Logentries, in a trailing 12-month period by the dollar value of the corresponding customer agreements. We also calculate an expiring renewal rate that does not take into account any upsells or cross-sells. As a result of this methodology, we would not expect our expiring renewal rate to exceed 100%. Our renewal rate was 122%, 120% and 126% in 2017, 2016 and 2015, respectively, and our expiring revenue renewal rate was 89%, 89% and 88% in 2017, 2016 and 2015, respectively. Our goal is to maintain what we believe are strong renewal rates, and work to increase them over time. However, our renewal rates may decline or fluctuate as a result of a number of factors, including customers’ satisfaction or dissatisfaction with our products and professional services, pricing, competitive offerings, economic conditions or overall changes in our customers’ spending levels.

We generate revenue from selling products, maintenance and support, and professional services. In 2017, 2016 and 2015, 81%, 81% and 82% of our revenue, respectively, was derived from sales of products and associated maintenance and support, while the remaining 19%, 19% and 18%, respectively, was derived from the sale of professional services.

In 2017, 2016 and 2015, recurring revenue, defined as revenue from term software licenses, content subscriptions, managed services, cloud-based subscriptions and maintenance and support, made up 70%, 67% and 66%, respectively, of total revenue. In prior years, we did not include term software licenses in the calculation of recurring revenue. As a result, for the years ended December 31, 2016 and 2015, our recurring revenue was recast from 62%, as previously disclosed, to 67% and 66%, respectively.

In 2017, 2016 and 2015, 57%, 55% and 53%, respectively, of our total revenue came from deferred revenue on the balance sheet at the beginning of the respective periods.

Key Metrics

We monitor the following key metrics to help us measure and evaluate the effectiveness of our operations:

	Year Ended December 31,		
	2017	2016	2015
	(dollars in thousands)		
Total revenue	$ 200,940	$ 157,437	$ 110,526
Year-over-year growth	27.6%	42.4%	43.8%
Calculated billings (non-GAAP)	$ 256,377	$ 196,183	$ 155,787
Annualized recurring revenue (non-GAAP)	$ 164,859	$ 121,192	$ 90,377
Operating cash flow	$ 13,286	$ 9,112	$ (1,907)

	As of December 31,	
	2017	2016
Deferred revenue	$ 224,500	$ 169,063
Number of customers	7,030	6,206

Total Revenue and Growth. We are focused on driving continued revenue growth through increased sales of our products and professional services to new and existing customers.

Calculated Billings. Calculated billings is a non-GAAP measure that we define as total revenue recognized in accordance with generally accepted accounting principles, or GAAP, plus the change in deferred revenue from the beginning to the end of the period. We have historically considered calculated billings to be a useful metric for management and investors, as a supplement to the corresponding GAAP measure of total revenue, because billings drive deferred revenue, which is an important indicator of the health and visibility of trends in our business, and represents a significant percentage of future revenue. We regularly monitored calculated billings because we believed the measure offered valuable information regarding the performance of our business and would help investors better understand the sales activity and performance of our business for a particular period. With the expansion of our subscription, cloud-based product offerings (InsightVM, InsightIDR, InsightAppSec, and InsightOps) on the Insight Platform, the shift of our other products to subscription pricing, and the shift of our sales compensation plans to Annualized Recurring Revenue, we may realize a shortening of our average contract duration, which should be taken into consideration when evaluating calculated billings. In addition, as we transition to a more subscription-based model, we believe calculated billings will be a less meaningful metric for our operations. Use of calculated billings also has limitations as an analytical tool and should not be considered in isolation or as a substitute for revenue recognition or revenue measurement, or an analysis of our results as reported under GAAP. Also, it is important to note that other companies, including companies in our industry, may not use calculated billings, may compute billings differently, may have different billing frequencies, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of calculated billings as a comparative measure.

Annualized Recurring Revenue (ARR). ARR is a non-GAAP measure that we define as the annual value of all recurring revenue related to contracts in place at the end of the period. ARR should be viewed independently of revenue and deferred revenue as ARR is a performance metric and is not intended to be combined with any of these items.

Operating Cash Flow. We monitor our operating cash flow as a measure of our overall business performance, which enables us to analyze our financial performance without the effects of certain non-cash items such as stock-based compensation expenses and depreciation and amortization. Additionally, operating cash flow takes into account the increase in deferred revenue as a result of increases in sales of products and services, which reflects the receipt of cash payment for products before they are recognized into revenue. Our operating cash flow is significantly impacted by the timing of commission and bonus payments, accounts payable payments and collections of accounts receivable.

Deferred Revenue. We believe that deferred revenue is an important metric as it provides visibility into the revenue to be recognized in future periods. Our deferred revenue consists of amounts that have been invoiced to customers but that have not yet been recognized as revenue. Our deferred revenue balance primarily consists of the portion of products, maintenance and support and professional services revenue that will be recognized ratably over the applicable maintenance and support contract period. Revenue from professional services that are sold on a stand-alone basis is recognized as those services are rendered.

Number of Customers. We believe that the size of our customer base is an indicator of our global market penetration and that our net customer additions are an indicator of the growth of our business. We define a customer as any entity that has (1) an active Rapid7 contract or a contract that expired within 90 days or less of the applicable measurement date; and for Logentries products, those customers with a contract value equal to or greater than $2,400 per year, or (2) purchased Rapid7 professional services within the 12 months preceding the applicable measurement date.

Non-GAAP Financial Results

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide investors with certain non-GAAP financial measures, including non-GAAP gross profit, non-GAAP operating loss, non-GAAP net loss, non-GAAP net loss per share, calculated billings and ARR which we collectively refer to as non-GAAP financial measures. These non-GAAP financial measures exclude all or a combination of the following (as reflected in the following reconciliation tables): stock-based compensation expense, amortization of acquired intangible assets, certain acquisition-related expenses and certain non-recurring items. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We use these non-GAAP financial measures for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons, and use certain non-GAAP financial measures as performance measures under our executive bonus plan. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision-making. While our non-GAAP financial measures are an important tool for financial and operational decision-making and for evaluating our own operating results over different periods of time, you should review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not rely on any single financial measure to evaluate our business.

We exclude stock-based compensation expense because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact our non-cash expense. We believe that providing non-GAAP financial measures that exclude stock-based compensation expense allow for more meaningful comparisons between our operating results from period to period. We believe that excluding the impact of amortization of acquired intangible assets allows for more meaningful comparisons between operating results from period to period as the intangibles are valued at the time of acquisition and are amortized over several years after the acquisition. We also exclude the impact of certain costs directly related to acquisitions and asset impairments as these costs are unrelated to the current operations and neither comparable to the prior period nor predictive of future results, which we believe allows for a more meaningful comparison between the operating results from period to period. We also exclude the impact of certain tax benefits due to U.S. tax reform, which we believe allows for a more meaningful comparison between the provision for tax provision from period to period. Accordingly, we believe that excluding these expenses provides investors and management with greater visibility into the underlying performance of our business operations, facilitates comparison of our results with other periods and may also facilitate comparison with the results of other companies in our industry.

Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact upon our reported financial results. Further, stock-based compensation expense has been and will continue to be for the foreseeable future a significant recurring expense in our business and an important part of the compensation provided to our employees.

The following tables reconcile GAAP gross profit to non-GAAP gross profit for the years ended 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
GAAP total gross profit	$ 144,030	$ 117,712	$ 81,282
Stock-based compensation expense	1,085	610	532
Amortization of acquired intangible assets	2,639	1,782	1,212
Non-GAAP total gross profit	$ 147,754	$ 120,104	$ 83,026

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
GAAP gross profit – products	$ 91,165	$ 76,957	$ 56,486
Stock-based compensation expense	336	76	9
Amortization of acquired intangible assets	2,639	1,782	1,212
Non-GAAP gross profit – products	$ 94,140	$ 78,815	$ 57,707

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
GAAP gross profit – maintenance and support	$ 38,777	$ 30,298	$ 20,901
Stock-based compensation expense	247	206	272
Non-GAAP gross profit – maintenance and support	$ 39,024	$ 30,504	$ 21,173

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
GAAP gross profit – professional services	$ 14,088	$ 10,457	$ 3,895
Stock-based compensation expense	502	328	251
Non-GAAP gross profit – professional services	$ 14,590	$ 10,785	$ 4,146

The following table reconciles GAAP loss from operations to non-GAAP loss from operations for the years ended 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
GAAP loss from operations	$ (48,794)	$ (49,049)	$ (46,560)
Stock-based compensation expense	19,541	17,316	10,685
Amortization of acquired intangible assets	2,813	2,438	1,286
Acquisition-related expenses	167	—	1,342
Impairment of long-lived assets	—	—	483
Non-GAAP loss from operations	$ (26,273)	$ (29,295)	$ (32,764)

The following table reconciles GAAP net loss attributable to common stockholders to non-GAAP net loss for the years ended 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands, except share and per share data)		
GAAP net loss attributable to common stockholders	$ (45,470)	(49,000)	(99,079)
Accretion of preferred stock to redemption value	—	—	35,061
Beneficial conversion charge relating to IPO participation payment	—	—	14,161
GAAP net loss	(45,470)	(49,000)	(49,857)
Stock-based compensation expense	19,541	17,316	10,685
Amortization of acquired intangible assets	2,813	2,438	1,286
Acquisition-related expenses	167	—	1,342
Impairment of long-lived assets	—	—	483
Release of valuation allowance, acquisition-related	(2,632)	—	—
Tax adjustment for the impact of tax reform	(352)	—	—
Non-GAAP net loss	$ (25,933)	$ (29,246)	$ (36,061)
Non-GAAP net loss per share, basic and diluted	$ (0.60)	$ (0.71)	$ (1.46)
Weighted-average common shares outstanding, basic and diluted	42,952,950	41,248,473	24,740,480

The following table reconciles total revenue to calculated billings for the years ended 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Total revenue	$ 200,940	$ 157,437	$ 110,526
Add: Deferred revenue, end of period	224,500	169,063	130,317
Less: Deferred revenue, beginning of period	169,063	130,317	85,056
Calculated billings	$ 256,377	$ 196,183	$ 155,787

Components of Results of Operations

Revenue

We generate revenue primarily from selling products, maintenance and support and professional services through a variety of delivery models to meet the needs of our diverse customer base. We generally bill customers and collect payment for both our products and services up front.

Products

We generate products revenue from the sale of (1) term or perpetual software licenses for our Nexpose, Metasploit and AppSpider products, term licenses for our Komand product offering, as well as associated content subscriptions for our Nexpose and Metasploit products, (2) managed services offerings which utilize either our InsightVM, AppSpider or InsightIDR products and (3) cloud-based subscriptions for our InsightVM, InsightIDR, InsightAppSec, InsightOps, AppSpider and Logentries products. We also generate an immaterial amount of appliance revenue that is included in our products revenue and is associated with hardware sold with our Nexpose product to certain customers. Revenue for term and perpetual software licenses and related services that are sold along with the software license is deferred on our balance sheet and recognized as revenue on our consolidated statements of operations ratably over the contractual period of the maintenance and support, which is typically one to three years. Revenue for our managed services and cloud-based subscription offerings is recognized on our consolidated statements of operations ratably over the term of the managed service agreement or subscription, provided that all other revenue recognition criteria have been met.

Maintenance and Support

We generate maintenance and support revenue when customers purchase or renew agreements for maintenance and support of their Nexpose, Metasploit and AppSpider software licenses. Substantially all of our customers purchase an agreement for maintenance and support in connection with their purchase of a Nexpose, Metasploit or AppSpider software license. Revenue from maintenance and support is recognized ratably over the term of the applicable agreement.

Professional Services

We generate professional service revenue from the sale of deployment and training services related to our products, incident response services and security advisory services. Revenue from professional services sold together with our term and perpetual software licenses product offerings is recognized ratably over the term of the applicable agreement. Revenue from professional services sold on a stand-alone basis or with non-software products is recognized as those services are rendered.

Cost of Revenue

Our total cost of revenue consists of the costs of products, maintenance and support and professional services revenue.

Cost of Products

Cost of products consists of personnel and related costs for our content, managed service and cloud operations team, including salaries and other payroll related costs, bonuses, stock-based compensation and allocated overhead costs, which consist of IT, information security, recruiting, facilities and depreciation and are allocated based on relative headcount. Also included in cost of products are software license fees, hardware, cloud computing costs and internet connectivity expenses directly related to delivering our products, as well as amortization of certain intangible assets including internally developed software.

Cost of Maintenance and Support

Cost of maintenance and support consists of personnel and related costs for our support team, including salaries and other payroll related costs, bonuses, stock-based compensation and allocated overhead.

Cost of Professional Services

Cost of professional services consists of personnel and related costs for our professional services team, including salaries and other payroll related costs, bonuses, stock-based compensation, costs of contracted third-party vendors, travel and entertainment expenses and allocated overhead.

We expect our cost of revenue to increase on an absolute dollar basis as we continue to grow our revenue.

Gross Margin

Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the average sales price of our products and services, transaction volume growth, the mix of revenue between software licenses, cloud-based subscriptions, managed services and professional services and changes in cloud computing costs.

We expect our gross margins to decrease slightly as we expect revenue from our cloud-based subscriptions and managed services to increase as a percentage of total revenue, each of which generally have a lower gross margin in comparison to our term or perpetual software license products.

Operating Expenses

Operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Operating expenses include allocated overhead costs for depreciation, facilities, IT, information security and recruiting. Our allocated costs for IT include costs for compensation of IT personnel and costs associated with our IT infrastructure. All allocated overhead costs are allocated based on relative headcount.

Research and Development Expense

Research and development expense consists of personnel costs for our research and development team, including salaries and other payroll related costs, bonuses and stock-based compensation. Additional expenses include subcontracting, travel and entertainment, consulting and professional fees for third-party development resources as well as allocated overhead.

We expect research and development expense to increase on an absolute dollar basis in the near term as we continue to increase investments in our products and technology platform innovation, but to remain consistent as a percentage of total revenue.

Sales and Marketing Expense

Sales and marketing expense consists of personnel costs for our sales and marketing team, including salaries and other payroll related costs, commissions, bonuses and stock-based compensation. Additional expenses include marketing activities and promotional events, travel and entertainment, training costs, amortization of certain intangible assets and allocated overhead.

We expect sales and marketing expense to increase on an absolute dollar basis in the near term as we continue to increase investments to drive our revenue growth, but to decrease as a percentage of total revenue.

General and Administrative Expense

General and administrative expense consists of personnel costs for our legal, human resources, and finance and accounting departments, including salaries and other payroll related costs, bonuses and stock-based compensation. Additional expenses include travel and entertainment, subcontracting, professional fees, insurance, acquisition-related expenses, amortization of certain intangible assets and allocated overhead.

We expect general and administrative expense to increase on an absolute dollar basis in the near term as we continue to increase investments to support our growth, but to decrease as a percentage of total revenue.

Interest Income (Expense), Net

Interest income (expense), net consists primarily of interest income on our cash and cash equivalents and our short and long-term investments, and in prior years, consisted primarily of interest expense incurred on our term loan obligation including amortization of the related discount.

Other Income (Expense), Net

Other income (expense), net consists primarily of unrealized and realized gains and losses related to changes in foreign currency exchange rates and realized gains and losses on the sale of investments.

Provision for (Benefit from) Income Taxes

Provision for (benefit from) income taxes relates to U.S. federal and state, as well as certain foreign jurisdiction, income taxes. Historically, we have generated net losses in the U.S., U.K and Ireland and recorded a full valuation allowance against our U.S., U.K. and Ireland deferred tax assets. We expect to maintain a full valuation allowance on our U.S., U.K. and Ireland deferred tax assets in the near term. Realization of our U.S., Ireland and U.K. deferred tax assets depends upon future earnings, the timing and amount of which are uncertain.

Results of Operations

	Year Ended December 31,		
	2017	2016	2015
		(in thousands)	
Consolidated Statement of Operations Data:			
Revenue:			
Products	$ 116,748	$ 89,404	$ 63,407
Maintenance and support	46,268	37,403	26,903
Professional services	37,924	30,630	20,216
Total revenue	200,940	157,437	110,526
Cost of revenue:(1)			
Products	25,583	12,447	6,921
Maintenance and support	7,491	7,105	6,002
Professional services	23,836	20,173	16,321
Total cost of revenue	56,910	39,725	29,244
Operating expenses:(1)			
Research and development	50,938	47,955	38,746
Sales and marketing	111,593	90,524	67,365
General and administrative	30,293	28,282	21,731
Total operating expenses	192,824	166,761	127,842
Loss from operations	(48,794)	(49,049)	(46,560)
Interest income (expense), net	775	131	(2,523)
Other income (expense), net	313	(109)	(278)
Loss before income taxes	(47,706)	(49,027)	(49,361)
Provision for (benefit from) income taxes	(2,236)	(27)	496
Net loss	(45,470)	(49,000)	(49,857)
Accretion of preferred stock to redemption value	—	—	(35,061)
Beneficial conversion charge relating to IPO participation payment	—	—	(14,161)
Net loss attributable to common stockholders	$ (45,470)	$ (49,000)	$ (99,079)

(1) Cost of revenue and operating expenses include stock-based compensation expense and depreciation and amortization expense as follows:

	Year Ended December 31,		
	2017	2016	2015
		(in thousands)	
Stock-based compensation expense:			
Cost of revenue	$ 1,085	$ 610	$ 532
Research and development	7,205	6,054	5,010
Sales and marketing	5,756	6,607	3,139
General and administrative	5,495	4,045	2,004
Total stock-based compensation expense	$ 19,541	$ 17,316	$ 10,685

	Year Ended December 31,		
	2017	2016	2015
		(in thousands)	
Depreciation and amortization expense:			
Cost of revenue	3,597	$ 2,529	$ 1,890
Research and development	1,077	1,080	1,138
Sales and marketing	1,986	1,842	1,617
General and administrative	968	1,274	707
Total depreciation and amortization expense	$ 7,628	$ 6,725	$ 5,352

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

	Year Ended December 31,		
	2017	2016	2015
Consolidated Statement of Operations Data:			
Revenue:			
Products	58.1 %	56.8 %	57.4 %
Maintenance and support	23.0	23.8	24.3
Professional services	18.9	19.4	18.3
Total revenue	100.0	100.0	100.0
Cost of revenue:			
Products	12.7	7.9	6.3
Maintenance and support	3.7	4.5	5.4
Professional services	11.9	12.8	14.8
Total cost of revenue	28.3	25.2	26.5
Operating expenses:			
Research and development	25.4	30.4	35.1
Sales and marketing	55.5	57.5	60.9
General and administrative	15.1	18.0	19.7
Total operating expenses	96.0	105.9	115.7
Loss from operations	(24.3)	31.1	42.2
Interest income (expense), net	0.4	0.1	(2.3)
Other income (expense), net	0.2	(0.1)	(0.2)
Loss before income taxes	(23.7)	(31.1)	(44.7)
Provision for (benefit from) income taxes	(1.1)	—	0.4
Net loss	(22.6)	(31.1)	(45.1)
Accretion of preferred stock to redemption value	—	—	(31.7)
Beneficial conversion charge relating to IPO participation payment	—	—	(12.8)
Net loss attributable to common stockholders	(22.6)%	(31.1)%	(89.6)%

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Revenue

	Year Ended December 31,		Change	
	2017	**2016**	**$**	**%**
	(dollars in thousands)			
Revenue:				
Products	$ 116,748	$ 89,404	$ 27,344	30.6%
Maintenance and support	46,268	37,403	8,865	23.7%
Professional services	37,924	30,630	7,294	23.8%
Total revenue	$ 200,940	$ 157,437	$ 43,503	27.6%

Total revenue increased by $43.5 million in 2017 compared to 2016. The increase in revenue included a $18.4 million increase from new customers, upsells and cross-sells. The increase in new customers revenue included 824 net new customers added since December 31, 2016 and a full year of revenue related to net new customers added in 2016, bringing our total customer count to 7,030 as of December 31, 2017, as compared to adding 1,074 net new customers in 2016, resulting in a total customer count of 6,206 as of December 31, 2016. Revenue also increased in 2017 compared to 2016 due to $25.1 million in additional revenue from existing customer renewals. The increase in total revenue in 2017 was comprised of $35.7 million generated from sales in North America and $7.8 million generated from sales from the rest of the world.

Cost of Revenue

	Year Ended December 31,		Change	
	2017	**2016**	**$**	**%**
	(dollars in thousands)			
Cost of revenue:				
Products	$ 25,583	$ 12,447	$ 13,136	105.5%
Maintenance and support	7,491	7,105	386	5.4%
Professional services	23,836	20,173	3,663	18.2%
Total cost of revenue	$ 56,910	$ 39,725	$ 17,185	43.3%
Gross margin %:				
Products	78.1%	86.1%		
Maintenance and support	83.8%	81.0%		
Professional services	37.1%	34.1%		
Total gross margin %	71.7%	74.8%		

Total cost of revenue increased by $17.2 million in 2017 compared to 2016, primarily due to a $9.1 million increase in personnel costs, inclusive of a $0.5 million increase in stock-based compensation expense, primarily as a result of our increase in headcount from 164 as of December 31, 2016 to 236 as of December 31, 2017 as well as the timing effect of when our headcount additions were hired in 2017 and 2016, to support our growing customer base. Our increase in total cost of revenue also included a $5.3 million increase in cloud computing costs related to growing cloud-based subscription revenue, a $2.1 million increase in allocated overhead driven largely by IT and facilities costs, a $0.9 million increase in amortization of intangible assets primarily due to the Komand acquisition, a $0.5 million increase in travel and entertainment expenses, and a $0.2 million increase in other costs, partially offset by a decrease of $0.9 million in third-party professional service consulting costs.

The total gross margin percentage decrease was primarily due to the decrease in gross margin percentage for products, partially offset by the increases in gross margin percentage for professional services and maintenance and support. The decrease in products gross margin percentage was due to an increase in revenue from cloud-based subscriptions and managed services, which have lower gross margins in comparison to our software license products. The increase in maintenance and support gross margin percentage was driven by our ability to scale as our revenue continues to grow. The increase in professional services gross margin percentage was primarily due to increased demand for our assessment services and deployment and training services.

Operating Expenses

Research and Development Expense

	Year Ended December 31,		Change	
	2017	2016	$	%
	(dollars in thousands)			
Research and development	$ 50,938	$ 47,955	$ 2,983	6.2%
% of revenue	25.4%	30.4%		

Research and development expense increased by $3.0 million in 2017 compared to 2016 primarily due to a $1.9 million increase in allocated overhead driven largely by an increase in IT and facilities costs, a $0.7 million increase in personnel costs, and an increase of $0.4 million in other expenses. The $0.7 million increase in personnel costs was primarily due to a $2.1 million increase in salaries and related costs driven by growth in headcount of our research and development teams from 251 as of December 31, 2016 to 266 as of December 31, 2017, which included 12 employees acquired in the Komand acquisition, as well as the timing effect of when our headcount additions were hired in 2017 and 2016. Also contributing to the increase was a $1.1 million increase in stock-based compensation expense and the impact of a $0.6 million Northern Ireland government grant received in 2016 which was non-recurring in 2017. These increases were partially offset by $1.2 million of acquisition-related bonus recorded in 2016, $1.2 million of personnel costs that were capitalized as internal-use software costs in 2017 and $0.7 million of certain departmental costs in 2016 that were eliminated in 2017.

Sales and Marketing Expense

	Year Ended December 31,		Change	
	2017	2016	$	%
	(dollars in thousands)			
Sales and marketing	$ 111,593	$ 90,524	$ 21,069	23.3%
% of revenue	55.5%	57.5%		

Sales and marketing expense increased by $21.1 million in 2017 compared to 2016 primarily due to a $12.1 million increase in personnel costs, resulting primarily from an increase in headcount from 346 as of December 31, 2016 to 437 as of December 31, 2017 to drive additional sales of our products and services as well as the timing effect of when our headcount additions were hired in 2017 and 2016 and from higher commissions expense recorded as a result of increased customer orders. The $12.1 million increase in personnel costs was inclusive of a $0.9 million decrease in stock-based compensation expense primarily due to equity grants in the prior period associated with the Logentries acquisition. Our increase in sales and marketing expense also included a $3.7 million increase in allocated overhead driven largely by an increase in IT and facilities costs, a $2.4 million increase in marketing expense driven largely by continued investments in attracting new customers, a $1.4 million increase in travel and entertainment expense, a $0.7 million increase in partner referral fees, a $0.6 million increase in recruiting and training costs, and $0.2 million of other expenses.

General and Administrative Expense

	Year Ended December 31,		Change	
	2017	2016	$	%
	(dollars in thousands)			
General and administrative	$ 30,293	$ 28,282	$ 2,011	7.1%
% of revenue	15.1%	18.0%		

General and administrative expense increased by $2.0 million in 2017 compared to 2016 primarily due to a $2.4 million increase in personnel costs, inclusive of an increase of $1.5 million in stock-based compensation expense, primarily the result of an increase in headcount from 126 as of December 31, 2016 to 140 as of December 31, 2017 to support our overall company growth as well as the timing effect of when our headcount additions were hired in 2017 and 2016. Our increase in general and administrative expense also included a $0.7 million increase in allocated overhead driven largely by an increase in IT and facilities costs and $0.2 million of other expenses. These increases were partially offset by a decrease of $0.5 million of amortization expense, a decrease of $0.4 million in recruiting costs and $0.4 million of costs associated with a settlement and licensing agreement with a third party in the prior period.

Interest Income (Expense), Net

	Year Ended December 31,		Change	
	2017	2016	$	%
	(dollars in thousands)			
Interest income (expense), net	$ 775	$ 131	$ 644	491.6%
% of revenue	0.4%	0.1%		

Interest income (expense), net increased by $0.6 million in 2017 compared to 2016 primarily due to higher interest income as a result of our investment in higher-yield securities. In 2017 and 2016, net interest income was partially offset by $0.1 million and $0.2 million, respectively, of interest expense due to non-cash interest charges related to the accretion of the liability associated with deferred acquisition payments.

Other Income (Expense), Net

	Year Ended December 31,		Change	
	2017	2016	$	%
	(dollars in thousands)			
Other income (expense), net	$ 313	$ (109)	$ 422	(387.2)%
% of revenue	0.2%	(0.1)%		

Other income (expense), net reflected a $0.4 million decrease in expense in 2017 compared to 2016 primarily due to realized and unrealized foreign currency gains exceeding losses, primarily related to the euro and pound sterling.

Benefit from Income Taxes

	Year Ended December 31,		Change	
	2017	2016	$	%
	(dollars in thousands)			
Benefit from income taxes	$ (2,236)	$ (27)	$ (2,209)	NM
% of revenue	(1.1)%	— %		

Benefit from income taxes increased by $(2.2) million in 2017 compared to 2016 primarily due to a $2.6 million deferred tax benefit resulting from a partial release of our valuation allowance to account for the creation of a deferred tax liability for the developed technology intangible asset acquired in the acquisition of Komand which is not deductible for tax purposes. as well as a $0.4 million tax benefit due to the impact of U.S tax reform. These benefits were partially offset by an increase of $0.8 million provision for income taxes due to our increased operations in foreign and U.S. state jurisdictions.

Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

Revenue

	Year Ended December 31,		Change	
	2016	2015	$	%
	(dollars in thousands)			
Revenue:				
Products	$ 89,404	$ 63,407	$ 25,997	41.0%
Maintenance and support	37,403	26,903	10,500	39.0
Professional services	30,630	20,216	10,414	51.5
Total revenue	$ 157,437	$ 110,526	$ 46,911	42.4%

The majority of our products and maintenance and support revenue and revenue associated with professional services in a multiple-element arrangement are recognized ratably over the related contractual period of maintenance and support (typically one to three years) and accordingly $87.3 million, or 55%, of our 2016 revenue was recorded as deferred revenue on the balance sheet as of December 31, 2015, as compared to $58.2 million, or 53%, of our 2015 revenue recorded on the balance sheet as of December 31, 2014. The remaining $70.1 million of 2016 revenue was recognized from 2016 billings as compared to $52.3 million of 2015 revenue recognized from 2015 billings. Total revenue increased by $46.9 million in 2016 compared to 2015 primarily due to the $29.1 million increase in revenue recognized from our deferred revenue balance, while the remaining increase of $17.8 million was recognized in same year in which it was billed. The $17.8 million increase is due to increased purchases of additional products and services in the amount of $12.3 million by our existing customers and $5.5 million in sales to customers that were new in 2016. The increase in total revenue in 2016 was comprised of $38.6 million generated from sales in North America and $8.3 million generated from sales from the rest of the world. We added 1,074 net new customers during 2016, bringing our total customer count to 6,206 as of December 31, 2016, as compared to adding 1,399 net new customers during 2015, resulting in a total customer count of 5,132 as of December 31, 2015. Products revenue increased by $26.0 million in 2016 compared to 2015, primarily due to increased sales of perpetual software licenses and associated content subscriptions. Maintenance and support revenue increased by $10.5 million in 2016 compared to 2015, due to a continued increase in our customer base. Professional services revenue increased by $10.4 million in 2016 compared to 2015, primarily due to increased demand for our assessment services, which are primarily sold on a standalone basis, and deployment and training services, which are primarily sold with software licenses as a multiple-element arrangement.

Cost of Revenue

	Year Ended December 31,		Change	
	2016	2015	$	%
	(dollars in thousands)			
Cost of revenue:				
Products	$ 12,447	$ 6,921	$ 5,526	79.8%
Maintenance and support	7,105	6,002	1,103	18.4
Professional services	20,173	16,321	3,852	23.6
Total cost of revenue	$ 39,725	$ 29,244	$ 10,481	35.8%
Gross margin %:				
Products	86.1%	89.1%		
Maintenance and support	81.0	77.7		
Professional services	34.1	19.3		
Total gross margin %	74.8%	73.5%		

Total cost of revenue increased by $10.5 million in 2016 compared to 2015, primarily due to a $5.6 million increase in personnel costs, primarily as a result of our increase in headcount from 140 as of December 31, 2015 to 164 as of December 31, 2016 as well as the timing effect of when our headcount additions were hired in 2016 and 2015, to support our growing customer base. Our increase in total cost of revenue also included a $2.8 million increase in cloud computing costs, a $0.9 million increase in allocated overhead driven largely by IT costs, a $0.6 million increase in amortization of intangible assets largely due to the Logentries acquisition, a $0.2 million increase in travel and entertainment expense and a $0.1 million increase in the costs of licenses and permits. The increase in cost of revenue in 2016 also included a write-off of obsolete appliance inventory in the amount of $0.3 million.

The total gross margin percentage increase was driven by the increase in gross margin for professional services and maintenance and support, partially offset by the decrease in gross margin for products. The increase in professional services gross margin was driven by higher utilization as well as a higher percentage of our services bookings coming from services that are sold on a standalone basis, which are recognized as delivered. The increase in maintenance and support gross margin was driven by our ability to scale as our revenue continues to grow. The decrease in products gross margin was due to an increase in revenue from cloud-based subscriptions and managed services which have lower gross margins than our software license product sales.

Operating Expenses

Research and Development Expense

	Year Ended December 31,		Change	
	2016	2015	$	%
	(dollars in thousands)			
Research and development	$ 47,955	$ 38,746	$ 9,209	23.8%
% of revenue	30.4%	35.1%		

Research and development expense increased by $9.2 million in 2016 compared to 2015 primarily due to a $6.1 million increase in personnel costs as a result of our increase in headcount of our research and development teams from 205 as of December 31, 2015 to 251 as of December 31, 2016 as well as the timing effect of when our headcount additions were hired in 2016 and 2015, to support our product innovation. Included in the increase in personnel cost was a $1.0 million increase in stock-based compensation expense and $3.1 million of additional cost attributable to the NT OBJECTives, Inc. (NTO) and Logentries acquisitions due to 2016 including a full year of expense, partially offset by $0.6 million in proceeds received from a Northern Ireland grant. Our increase in research and development expense also included a $3.7 million increase in allocated overhead driven largely by an increase in IT and facilities costs. These cost increases were offset by a $0.5 million reduction related to a charge taken in 2015 for the write off of capitalized product development costs, and a $0.1 million decrease in other expenses.

Sales and Marketing Expense

	Year Ended December 31,		Change	
	2016	2015	$	%
	(dollars in thousands)			
Sales and marketing	$ 90,524	$ 67,365	$ 23,159	34.4%
% of revenue	57.5%	60.9%		

Sales and marketing expense increased by $23.2 million in 2016 compared to 2015 primarily due to a $13.2 million increase in personnel costs, resulting from an increase in headcount from 314 as of December 31, 2015 to 346 as of December 31, 2016 as well as the timing effect of when our headcount additions were hired in 2016 and 2015, to actively market and develop additional sales of our products and services. Included in the increase in personnel cost was a $3.5 million increase in stock-based compensation expense and $2.6 million of additional costs attributable to the Logentries acquisition due to 2016 including a full year of expense. Our increase in sales and marketing expense also included a $3.3 million increase in allocated overhead driven largely by an increase in IT and facilities costs, a $2.2 million increase in marketing expense driven largely by continued investments in attracting new customers, a $2.1 million increase in partner referral fees, a $1.2 million increase in travel and entertainment expense, a $0.7 million increase in recruiting and training costs, a $0.3 million increase in professional fees and $0.2 million of other expenses.

General and Administrative Expense

	Year Ended December 31,		Change	
	2016	2015	$	%
	(dollars in thousands)			
General and administrative	$ 28,282	$ 21,731	$ 6,551	30.1%
% of revenue	18.0%	19.7%		

General and administrative expense increased by $6.6 million in 2016 compared to 2015 primarily due to a $3.7 million increase in personnel costs as a result of an increase in headcount from 97 as of December 31, 2015 to 126 as of December 31, 2016 as well as the timing effect of when our headcount additions were hired in 2016 and 2015, to support our overall company growth as well as operations as a public company. Included in the increase in personnel costs was a $2.0 million increase in stock-based compensation expense. Our increase in general and administrative expense also included a $0.9 million increase in professional fees related to global structuring of our intellectual property and international business operations, a $0.6 million increase in allocated overhead, driven by higher IT and facilities costs, a $0.4 million increase in recruiting and relocation costs related to certain key employees, a $0.5 million increase in amortization expense largely due to the Logentries acquisition, a $0.4 million increase in insurance costs, and $0.4 million related to a settlement and licensing agreement with a third party, partially offset by a $0.3 million decrease in other expenses.

Interest Income (Expense), Net

	Year Ended December 31,		Change	
	2016	2015	$	%
	(dollars in thousands)			
Interest income (expense), net	$ 131	$ (2,523)	$ 2,654	NM
% of revenue	0.1%	(2.3)%		

Interest income (expense), net increased by $2.7 million in 2016 compared to 2015 primarily due to the repayment in full and termination of our term loan in July 2015.

Other Income (Expense), Net

	Year Ended December 31,		Change	
	2016	2015	$	%
	(dollars in thousands)			
Other income (expense), net	$ (109)	$ (278)	$ 169	60.8%
% of revenue	(0.1)%	(0.2)%		

Other income (expense), net reflected a $0.2 million decrease in expense in 2016 compared to 2015 primarily due to realized and unrealized foreign currency gains and losses.

Provision for (Benefit from) Income Taxes

	Year Ended December 31,		Change	
	2016	2015	$	%
	(dollars in thousands)			
Provision for (benefit from) income taxes	$ (27)	$ 496	$ (523)	105.4%
% of revenue	—	0.4%		

Provision for (benefit from) income taxes decreased by $0.5 million in 2016 compared to 2015 primarily due to recognition of research and development tax credits in Canada, Ireland and the United Kingdom, as well as the impact related to the restructuring of our international business operations.

Liquidity and Capital Resources

Our principal sources of liquidity are cash and cash equivalents, investments and our accounts receivable. In connection with our initial public offering, or IPO, and concurrent private placement in July 2015, we received aggregate net proceeds to us of $112.3 million, after deducting underwriting discounts and commissions related to our IPO of $8.3 million and offering expenses of $3.1 million. Prior to our IPO, we funded our operations primarily through issuances of common and redeemable convertible preferred stock and debt, including net proceeds of $93.4 million from the sale of shares of common and preferred stock. As of December 31, 2017, we had $51.6 million in cash and cash equivalents, $40.3 million of short- and long-term investments that have maturities ranging from 3 months to 2 years and an accumulated deficit of $434.9 million. In addition, in January 2018, we closed a public offering of 5,950,000 shares of our common stock for net proceeds of $30.9 million. Since our inception, we have generated significant losses and expect to continue to generate losses for the foreseeable future.

We believe that our existing cash and cash equivalents together with cash generated from our operations will be sufficient to meet our working capital expenditure requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our growth rate; the timing and extent of spending to support research and development efforts, the expansion of sales and marketing activities, particularly internationally; the introduction of new and enhanced products and professional service offerings; and the cost of any future acquisitions of technology or businesses. In the event that additional financing is required from outside sources, we may be unable to raise the funds on acceptable terms, if at all. If we are unable to raise additional capital on terms satisfactory to us when we require it, our business, operating results and financial condition could be adversely affected.

The following table shows a summary of our cash flows for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Cash and cash equivalents at beginning of period	$ 53,148	$ 86,553	$ 36,823
Net cash provided by (used in) operating activities	13,286	9,112	(1,907)
Net cash used in investing activities	(22,421)	(43,475)	(42,947)
Net cash provided by financing activities	7,268	1,161	94,786
Effects of exchange rates on cash	281	(203)	(202)
Cash and cash equivalents at end of period	$ 51,562	$ 53,148	$ 86,553

Uses of Funds

Our historical uses of cash have primarily consisted of cash used for operating activities such as expansion of our sales and marketing operations, research and development activities and other working capital needs, as well as cash used for investing activities such as business acquisitions and purchases of property and equipment.

Operating Activities

Operating activities provided $13.3 million of cash in 2017. Cash provided by operating activities reflected our net loss of $45.5 million, offset by a decrease in our net operating assets and liabilities of $33.7 million and non-cash charges of $25.1 million related primarily to depreciation and amortization, stock-based compensation expense, provision for doubtful accounts, deferred income taxes and other non-cash charges. The decrease in our net operating assets and liabilities was primarily due to a $55.4 million increase in deferred revenue from sales of our products and services, and a $6.8 million increase in accrued expenses, which both had a positive impact on operating cash flow. These factors were offset by a $25.2 million increase in accounts receivable, a $2.3 million decrease in accounts payable and a $1.0 million decrease in other liabilities, which each had a negative impact on operating cash flow.

Operating activities provided $9.1 million of cash in 2016. Cash provided by operating activities reflected our net loss of $49.0 million, offset by a decrease in our net operating assets and liabilities of $32.8 million and non-cash charges of $25.3 million related primarily to depreciation and amortization, stock-based compensation expense, provision for doubtful accounts and other non-cash charges. The decrease in our net operating assets and liabilities was primarily due to a $38.7 million increase in deferred revenue from sales of our products and services, a $1.6 million increase in accrued expenses, a $1.6 million increase in accounts payable and a $0.6 million increase in other liabilities, which all had a positive impact on operating cash flow. These factors were offset by a $6.2 million increase in accounts receivable and a $3.5 million increase in prepaid expenses and other assets, which each had a negative impact on operating cash flow.

Operating activities used $1.9 million in cash in 2015, which reflected continued growth in revenue, offset by continuing investment in our operations. Cash used in operating activities reflected our net loss of $49.9 million, partially offset by a net decrease in our net operating assets and liabilities of $29.0 million and non-cash charges of $19.0 million related to depreciation and amortization, stock-based compensation, provision for doubtful accounts and other non-cash charges such as amortization of debt discount, impairment of long-lived assets and non-cash interest expense. The decrease in our net operating assets and liabilities was primarily due to a $44.8 million increase in deferred revenue from sales of our products and services and a $6.7 million increase in accrued expenses, partially offset by a $18.4 million increase in accounts receivable, a $2.3 million decrease in accounts payable and a $1.8 million increase in prepaid expenses and other assets.

Investing Activities

Investing activities used $22.4 million of cash in 2017, consisting of $14.7 million of cash paid for the acquisition of Komand, $4.8 million in capital expenditures to purchase computer equipment and leasehold improvements and $1.2 million for the capitalization of internal-use software costs, $35.2 million used for purchases of investments less $33.7 million of investment sales and maturities and $0.2 million increase in restricted cash.

Investing activities used $43.5 million of cash in 2016, consisting of $39.0 million used for purchases of investments and $4.5 million in capital expenditures to purchase equipment and leasehold improvements.

Investing activities used $42.9 million in cash in 2015, primarily for the acquisitions of Logentries and NTO for $35.5 million and $3.3 million, respectively. Additionally, $4.1 million was used to purchase property and equipment.

Financing Activities

Financing activities provided $7.3 million of cash in 2017, which consisted primarily of $5.8 million in proceeds from the exercise of stock options, and $2.9 million in proceeds from the issuance of common stock purchased by employees under the Rapid7, Inc. 2015 Employee Stock Purchase Plan, or ESPP, partially offset by a $0.7 million payment related to the deferred acquisition consideration associated with the NTO acquisition in 2015 and $0.7 million in withholding taxes paid for the net share settlement of equity awards.

Financing activities provided $1.2 million of cash in 2016, which consisted primarily of $3.7 million in proceeds from the issuance of common stock purchased by employees under the ESPP, $2.9 million in proceeds from the exercise of stock options and $0.1 million related to an excess tax benefit from stock-based compensation, partially offset by $4.1 million in withholding taxes paid for the net share settlement of equity awards and a $1.4 million payment related to the deferred acquisition consideration associated with the NTO acquisition in 2015.

Financing activities provided $94.8 million in 2015, which consisted of net proceeds from our IPO and concurrent private placement of $112.3 million and proceeds from stock option exercises of $1.3 million, partially offset by the repayment of our term loan and related termination payment of $18.5 million and payments on capital lease obligations of $0.3 million.

Contractual Obligations and Commitments

The following table summarizes our commitments to settle contractual obligations as of December 31, 2017:

	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	Total
			(in thousands)		
Operating leases	$ 7,677	$ 27,913	$ 27,856	$ 42,221	$ 105,667
Non-cancellable purchase obligations	15,912	16,041	—	—	31,953
Total	$ 23,589	$ 43,954	$ 27,856	$ 42,221	$ 137,620

The commitment amounts in the table above are associated with agreements that are enforceable and legally binding. The table does not include obligations under agreements that we can cancel without a significant penalty.

We lease our office facilities under non-cancellable operating leases. Certain of our operating leases require real estate taxes, common area maintenance and insurance payments, which are expensed when incurred and not included in the commitments table noted above.

As of December 31, 2017, we have leases that expire at various dates through 2029.

As of December 31, 2017, we had a total of $7.7 million in letters of credit outstanding as collateral for certain office space leases and a corporate credit card program. These irrevocable letters of credit, which are not included in the table of contractual obligations above, are unsecured and are expected to remain in effect, in some cases, until 2029.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We do not engage in off-balance sheet financing arrangements. In addition, we do not engage in trading activities involving non-exchange traded contracts. We therefore believe that we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of our consolidated financial statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue, costs and expenses. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates. Our most critical accounting policies are summarized below. See Note 2 to our consolidated financial statements included in this Annual Report on Form 10-K for a description of our other significant accounting policies.

Revenue Recognition

We generate revenue primarily from selling products, maintenance and support, and professional services through a variety of delivery models. We generally bill customers and collect payment for both our products and services up front.

We generate products revenue from the sale of (1) term or perpetual software licenses for our Nexpose, Metasploit and AppSpider products, term licenses for our Komand product offering and associated content subscriptions for our Nexpose and Metasploit products, (2) managed services offerings which utilize either our InsightVM, AppSpider or InsightIDR products and (3) cloud-based subscriptions for our InsightVM, InsightIDR, InsightAppSec, InsightOps, AppSpider and Logentries products. We also generate an immaterial amount of appliance revenue that is included in our products revenue and that is associated with hardware sold with our Nexpose product to certain customers. We generate maintenance and support revenue associated with customers' purchases of our software licenses for Nexpose, Metasploit, and AppSpider. We generate professional service revenue from the sale of our deployment and training services related to our solutions, incident response services and security advisory services.

Revenue is only recognized when all of the following are met:

- *Persuasive evidence of an arrangement exists*. Binding agreements or purchase orders are generally evidence of an arrangement.
- *Delivery has occurred*. Delivery occurs (1) upon delivery of the software license key or when the customer has access to the software product or (2) when we perform the services.
- *The sales price is fixed or determinable*. Fees are considered fixed and determinable when the fees are contractually agreed upon with the customer.
- *Collectability is probable*. Collectability is deemed probable based on review of a number of factors, including creditworthiness and customer payment history. If collectability is not probable, revenue is deferred until collection becomes probable, which is generally upon the receipt of payment.

Substantially all of our software licenses are sold in multiple-element arrangements that include maintenance and support and content subscriptions, and in addition could include cloud-based subscriptions, professional services and/or managed services. All of these elements are considered to be software elements other than cloud-based subscriptions and managed services which are non-software elements. Non-software elements included in multiple-element arrangements consist of a single deliverable that has stand-alone value and that represents a single unit of accounting. We have determined that we do not have vendor-specific objective evidence, or VSOE, of the selling price for the elements comprising these multiple-element arrangements as our software licenses are generally not sold on a stand-alone basis and we purposefully employ variable pricing for our offerings in order to meet customer purchase requirements along the multiple price points of the demand curve.

When all of the elements of a multiple-element arrangement are software elements, the revenue for software licenses and any other products and services that are sold along with the license is generally deferred on our balance sheet and recognized as revenue on our consolidated statements of operations ratably over the contractual period of the maintenance and support, typically one to three years, which is longer than the period over which the professional services are performed. Revenue recognition begins upon delivery of the software license, assuming that all other criteria for revenue recognition have been met.

When a multiple-element arrangement includes both software elements and non-software elements, the total arrangement consideration is first allocated between the software elements and the non-software elements based on the selling price hierarchy, which includes (1) VSOE, if available, (2) third-party evidence, or TPE, if VSOE is not available or (3) best estimate of selling price, or BESP, if neither VSOE nor TPE is available. We have not been able to establish a selling price for any element using

VSOE or TPE. We determine BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and volume of our transactions, our price lists, our go-to-market strategy, historical standalone sales and contract prices. The determination of BESP is made in consultation with, and is approved by, our management. The portion of the consideration allocated to the non-software elements are recognized ratably over the service period of the non-software elements, assuming all other criteria for revenue recognition have been met. The portion of the consideration allocated to software elements is recognized as described above.

With respect to our managed services and cloud-based subscription offerings sold on a stand-alone basis, we recognize revenue ratably over the term of the managed service agreement or subscription, assuming that the other criteria for revenue recognition are met.

We recognize revenue from professional services sold on a stand-alone basis as those services are rendered.

For purposes of disclosing revenue by class, we allocate the arrangement consideration for multiple-element software arrangements among the individual elements utilizing BESP, as we do not have VSOE or TPE of selling price for any of the elements.

Stock-Based Compensation

We measure and recognize compensation expense for all stock options, restricted stock awards, or RSAs, and restricted stock units, or RSUs, based on the estimated fair value of the award on the grant date. The fair value is recognized as expense over the requisite service period, which is generally the vesting period of the respective award, on a straight-line basis when the only condition to vesting is continued service. If vesting is subject to a market or performance condition, recognition is based on the derived service period of the award. Expense for awards with performance conditions is estimated and adjusted on a quarterly basis based upon the assessment of the probability that the performance condition will be met.

We use the Black-Scholes option pricing model to estimate the fair value of stock option awards. The Black-Scholes option pricing model requires management to make a number of other assumptions, including the expected life of the option, the volatility of the underlying stock, the risk-free interest rate and expected dividends. The assumptions used in our Black-Scholes option-pricing model represent management’s best estimates at the time of grant. These estimates are complex, involve a number of variables, uncertainties and assumptions and the application of management’s judgment, as they are inherently subjective. If any assumptions change, our stock-based compensation expense could be materially different in the future.

These assumptions are estimated as follows:

- *Fair Value of Common Stock*. Prior to our IPO, we estimated the fair value of common stock considering a number of objective and subjective factors, including contemporaneous third-party valuations of our common stock. For stock options granted subsequent to our IPO in July 2015, the fair value of common stock is based on the closing price of our common stock as reported on the Nasdaq Global Market on the date of grant.

- *Expected Term*. The expected term represents the period that our stock options are expected to be outstanding. We calculated the expected term using the simplified method based on the average of each option’s vesting term and the contractual period during which the option can be exercised, which is typically 10 years following the date of grant.

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

- *Risk-Free Interest Rate*. The risk-free interest rate was based on U.S. Treasury zero-coupon securities with maturities consistent with the estimated expected term.

- *Expected Dividend Yield*. We have not paid dividends on our common stock nor do we expect to pay dividends in the foreseeable future.

The fair values of RSAs and RSUs are based on the closing market price of our common stock on the Nasdaq Global Market on the date of grant.

We estimate the fair value of the rights to acquire stock under our ESPP using the Black-Scholes option pricing formula. Our ESPP provides for a twelve-month offering period which contains two purchase periods of approximately six months in duration. We use our peer group volatility data in the valuation of ESPP shares. We recognize such compensation expense on a straight-line basis over the employee's requisite service period.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards using tax rates expected to be in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all of, or a portion of, deferred tax assets will not be utilized in the future.

We account for unrecognized tax benefits using a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. Interest and penalties associated with such uncertain tax positions are classified as a component of income tax expense.

Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence, including past operating results, estimates of future taxable income and the feasibility of tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

Estimates of future taxable income are based on assumptions that are consistent with our plans. Assumptions represent management's best estimates and involve inherent uncertainties and the application of management's judgment. Should actual amounts differ from our estimates, the amount of our tax expense and liabilities could be materially impacted.

Goodwill and Other Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. We allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Goodwill is not amortized but is tested for impairment at least annually or more frequently when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred.

For our goodwill impairment analysis, we operate with a single reporting unit. We test goodwill for impairment on the last day of each fiscal year and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. To test goodwill impairment, we perform a single-step goodwill impairment test to identify potential goodwill impairment. The single-step impairment test begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when a reporting unit's carrying value exceeds its fair value. Significant judgment is applied when goodwill is assessed for impairment. In performing the single step of the goodwill impairment testing and measurement process, we estimated the fair value of our single reporting unit using our market capitalization. Based upon our assessment performed as of December 31, 2017, we concluded the fair value of our single reporting unit exceeded its carrying value and there was no impairment of goodwill.

Other intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods appropriate for the type of intangible asset and reported separately from goodwill. Intangible assets with definite lives are amortized over the estimated useful lives and are tested for impairment when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. For the year ended December 31, 2017, we determined there were no indicators of impairment of our other intangible assets.

Recent Accounting Pronouncements

See Note 2 Summary of Significant Accounting Policies contained in the "Notes to Consolidated Financial Statements" in Item 8 of Part II of this Annual Report on Form 10-K for a description of recent accounting pronouncements and our expectation of their impact, if any, on our results of operations and financial conditions.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. A majority of our customers enter into contracts that are denominated in U.S. dollars. Our expenses are generally denominated in the currencies of the countries where our operations are located, which is primarily in the United States and to a lesser extent in the United Kingdom, other Euro-zone countries within mainland Europe, Canada, Hong Kong, Singapore and Australia. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign currency exchange rates. During the years ended December 31, 2017 and 2016, the effect of a hypothetical 10% adverse change in foreign currency exchange rates on monetary assets and liabilities would not have been material to our financial condition or results of operations. To date, we have not engaged in any hedging strategies. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign currency rates.

Interest Rate Risk

Our portfolio of cash and cash equivalents and short- and long-term investments is maintained in a variety of securities, including money market funds, commercial paper, corporate bonds, U.S. government agencies and asset-backed securities. Investments are classified as available-for-sale securities and carried at their fair market value with cumulative unrealized gains or losses recorded as a component of accumulated other comprehensive loss within stockholders' equity. A sharp rise in interest rates could have an adverse impact on the fair market value of certain securities in our portfolio. We do not currently hedge our interest rate exposure and do not enter into financial instruments for trading or speculative purposes.

As of December 31, 2017 and 2016, we had cash and cash equivalents of $51.6 million and $53.1 million, respectively, consisting of bank deposits and money market funds. As of December 31, 2017 and 2016, we also had short- and long-term investments of $40.3 million and $38.9 million, respectively, consisting of U.S. government agencies, commercial paper, corporate bonds and asset-backed securities. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant. During the years ended December 31, 2017 and 2016, the effect of a hypothetical 10% increase or decrease in overall interest rates would not have had a material impact on our financial statements.

Inflation Risk

We do not believe that inflation had a material effect on our business, financial condition or results of operations in the last three years. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 8. Financial Statements and Supplementary Data.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Rapid7, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Rapid7, Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive loss, changes in redeemable convertible preferred stock and stockholders’ equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

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

Boston, Massachusetts
March 8, 2018

RAPID7, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 51,562	$ 53,148
Short-term investments	39,178	18,779
Accounts receivable, net of allowance for doubtful accounts of $1,478 and $1,061 at December 31, 2017 and 2016, respectively	73,661	49,154
Prepaid expenses and other current assets	8,877	9,152
Total current assets	173,278	130,233
Long-term investments	1,102	20,162
Property and equipment, net	8,589	8,088
Goodwill	83,164	75,110
Intangible assets, net	16,640	8,946
Other assets	1,363	764
Total assets	$ 284,136	$ 243,303
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	2,240	4,012
Accrued expenses	29,728	23,499
Deferred revenue, current portion	155,811	116,903
Other current liabilities	1,706	1,195
Total current liabilities	189,485	145,609
Deferred revenue, non-current portion	68,689	52,160
Other long-term liabilities	1,809	3,496
Total liabilities	259,983	201,265
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 10,000,000 shares authorized at December 31, 2017 and 2016; 0 shares issued and outstanding at December 31, 2017 and 2016	—	—
Common stock, $0.01 par value per share; 100,000,000 shares authorized at December 31, 2017 and 2016; 44,540,544 and 43,018,737 shares issued at December 31, 2017 and 2016, respectively; 44,053,736 and 42,554,683 shares outstanding at December 31, 2017 and 2016, respectively	441	426
Treasury stock, at cost, 486,808 and 464,054 shares at December 31, 2017 and 2016, respectively	(4,764)	(4,391)
Additional paid-in-capital	463,428	435,360
Accumulated other comprehensive loss	(39)	(19)
Accumulated deficit	(434,913)	(389,338)
Total stockholders' equity	24,153	42,038
Total liabilities and stockholders' equity	$ 284,136	$ 243,303

See accompanying notes to consolidated financial statements.

RAPID7, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

	Year Ended December 31,		
	2017	**2016**	**2015**
Revenue:			
Products	$ 116,748	$ 89,404	$ 63,407
Maintenance and support	46,268	37,403	26,903
Professional services	37,924	30,630	20,216
Total revenue	200,940	157,437	110,526
Cost of revenue:			
Products	25,583	12,447	6,921
Maintenance and support	7,491	7,105	6,002
Professional services	23,836	20,173	16,321
Total cost of revenue	56,910	39,725	29,244
Total gross profit	144,030	117,712	81,282
Operating expenses:			
Research and development	50,938	47,955	38,746
Sales and marketing	111,593	90,524	67,365
General and administrative	30,293	28,282	21,731
Total operating expenses	192,824	166,761	127,842
Loss from operations	(48,794)	(49,049)	(46,560)
Other income (expense), net:			
Interest income (expense), net	775	131	(2,523)
Other income (expense), net	313	(109)	(278)
Loss before income taxes	(47,706)	(49,027)	(49,361)
Provision for (benefit from) income taxes	(2,236)	(27)	496
Net loss	(45,470)	(49,000)	(49,857)
Accretion of preferred stock to redemption value	—	—	(35,061)
Beneficial conversion charge relating to IPO participation payment	—	—	(14,161)
Net loss attributable to common stockholders	$ (45,470)	$ (49,000)	$ (99,079)
Net loss per share attributable to common stockholders, basic and diluted	$ (1.06)	$ (1.19)	$ (4.00)
Weighted-average common shares outstanding, basic and diluted	42,952,950	41,248,473	24,740,480

See accompanying notes to consolidated financial statements.

RAPID7, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
Net loss	$ (45,470)	$ (49,000)	$ (49,857)
Other comprehensive loss:			
Change in fair value of investments	(23)	(19)	—
Adjustment for net losses realized and included in net loss	3	—	—
Total change in unrealized losses on investments	(20)	(19)	—
Comprehensive loss	$ (45,490)	$ (49,019)	$ (49,857)

See accompanying notes to consolidated financial statements.

RAPID7, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)

(in thousands)

	Redeemable convertible preferred stock		Common stock		Treasury stock		Additional paid-in-capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 2014	16,382	$ 211,598	12,563	$ 126	402	$ (3,526)	$ —	$ —	$ (243,462)	$ (246,862)
Stock-based compensation	—	—	—	—	—	—	10,685	—	—	10,685
Accretion of preferred stock to redemption value	—	35,061	—	—	—	—	(2,203)	—	(32,858)	(35,061)
Conversion of preferred stock to common stock	(16,382)	(246,659)	16,382	164	—	—	246,495	—	—	246,659
IPO participation payment and beneficial conversion charge	—	—	1,940	19	—	—	14,142	—	(14,161)	—
Issuance of common stock in relation to IPO and concurrent private placement, net of offering costs	—	—	7,730	77	—	—	112,198	—	—	112,275
Issuance of common stock and options associated with acquisitions	—	—	1,262	13	—	—	31,962	—	—	31,975
Issuance of restricted stock	—	—	1,358	13	—	—	(13)	—	—	—
Shares withheld for employee taxes	—	—	(134)	(1)	—	—	(3,086)	—	—	(3,087)
Issuance of common stock upon exercise of stock options and warrants	—	—	439	4	—	—	1,344	—	—	1,348
Net loss	—	—	—	—	—	—	—	—	(49,857)	(49,857)
Balance, December 31, 2015	—	$ —	41,540	$ 415	402	$ (3,526)	$ 411,524	$ —	$ (340,338)	$ 68,075
Stock-based compensation	—	—	—	—	—	—	17,316	—	—	17,316
Issuance of common stock under ESPP	—	—	346	4	—	—	3,720	—	—	3,724
Vesting of restricted stock units	—	—	91	1	—	—	(1)	—	—	—
Forfeiture of restricted stock awards	—	—	(27)	—	—	—	—	—	—	—
Shares withheld for employee taxes	—	—	(74)	(1)	62	(865)	(160)	—	—	(1,026)
Excess tax benefit from stock-based compensation	—	—	—	—	—	—	87	—	—	87
Issuance of common stock upon exercise of stock options and warrants	—	—	679	7	—	—	2,874	—	—	2,881
Net unrealized loss on investments	—	—	—	—	—	—	—	(19)	—	(19)
Net loss	—	—	—	—	—	—	—	—	(49,000)	(49,000)
Balance, December 31, 2016	$ —	$ —	42,555	$ 426	464	$ (4,391)	$ 435,360	$ (19)	$ (389,338)	$ 42,038
Stock-based compensation	—	—	—	—	—	—	19,541	—	—	19,541
Cumulative-effect adjustment for the adoption of ASU 2016-09	—	—	—	—	—	—	105	—	(105)	—
Issuance of common stock under ESPP	—	—	247	3	—	—	2,911	—	—	2,914
Vesting of restricted stock units	—	—	436	4	—	—	(4)	—	—	—
Forfeiture of restricted stock awards	—	—	(21)	—	—	—	—	—	—	—
Shares withheld for employee taxes	—	—	(50)	(1)	23	(373)	(324)	—	—	(698)
Issuance of common stock upon exercise of stock options	—	—	887	9	—	—	5,839	—	—	5,848
Net unrealized loss on investments	—	—	—	—	—	—	—	(20)	—	(20)
Net loss	—	—	—	—	—	—	—	—	(45,470)	(45,470)
Balance, December 31, 2017	$ —	$ —	44,054	$ 441	487	$ (4,764)	$ 463,428	$ (39)	$ (434,913)	$ 24,153

See accompanying notes to consolidated financial statements.

RAPID7, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
Cash flows from operating activities:			
Net loss	$ (45,470)	$ (49,000)	$ (49,857)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	7,628	6,725	5,352
Amortization of debt discount	—	—	1,129
Stock-based compensation expense	19,541	17,316	10,685
Provision for doubtful accounts	905	931	828
Impairment of long-lived assets	—	—	483
Deferred income taxes	(2,860)	75	119
Foreign currency re-measurement (gain) loss	(364)	58	153
Other non-cash expenses	209	222	209
Changes in assets and liabilities:			
Accounts receivable	(25,217)	(6,195)	(18,370)
Prepaid expenses and other assets	(74)	(3,523)	(1,787)
Accounts payable	(2,257)	1,619	(2,302)
Accrued expenses	6,758	1,578	6,702
Deferred revenue	55,437	38,748	44,868
Other liabilities	(950)	558	(119)
Net cash provided by (used in) operating activities	13,286	9,112	(1,907)
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(14,717)	—	(38,811)
Purchases of property and equipment	(4,824)	(4,499)	(4,136)
Capitalization of internal-use software	(1,162)	—	—
Purchases of investments	(35,190)	(38,976)	—
Sales and maturities of investments	33,672	—	—
Increase in restricted cash	(200)	—	—
Net cash used in investing activities	(22,421)	(43,475)	(42,947)
Cash flows from financing activities:			
Proceeds from initial public offering and concurrent private placement, net of offering costs of $3,097	—	—	112,275
Repayments of term loan and related termination fee	—	—	(18,540)
Deferred business acquisition payment	(796)	(1,392)	—
Payments of capital lease obligations	—	(68)	(253)
Taxes paid related to net share settlement of equity awards	(698)	(4,114)	—
Excess tax benefit from stock-based compensation	—	87	—
Proceeds from employee stock purchase plan	2,914	3,724	—
Proceeds from stock option exercises	5,848	2,924	1,304
Net cash provided by financing activities	7,268	1,161	94,786
Effect of exchange rate changes on cash and cash equivalents	281	(203)	(202)
Net (decrease) increase in cash and cash equivalents	(1,586)	(33,405)	49,730
Cash and cash equivalents, beginning of period	53,148	86,553	36,823
Cash and cash equivalents, end of period	$ 51,562	$ 53,148	$ 86,553
Supplemental cash flow information:			
Cash paid for income taxes	$ 801	$ 556	$ 341
Cash paid for interest	$ —	$ 5	$ 1,427
Supplemental non-cash investing and financing information:			
Common stock issued for acquisitions	$ —	$ —	$ 27,481
Vested stock options issued for acquisition	$ —	$ —	$ 4,494

See accompanying notes to consolidated financial statements.

RAPID7, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Nature of the Business

Rapid7, Inc. and subsidiaries ("we," "us" or "our") is trusted by IT and security professionals around the world to manage risk, simplify modern IT complexity, and drive innovation. Our analytics help transform today's vast amount of security and IT data into the answers needed to securely develop and operate sophisticated IT networks and applications.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements include our results of operations and those of our wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, together with amounts disclosed in the accompanying notes to the financial statements. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include revenue recognition, provision for doubtful accounts, stock-based compensation expense, deferred tax valuation allowances and goodwill and intangible assets. We base our estimates on historical experience and also on assumptions that we believe are reasonable. Changes in facts or circumstances may cause us to change our assumptions and estimates in future periods and it is possible that actual results could differ from our current or revised future estimates.

(c) Revenue Recognition

We generate revenue primarily from selling products, maintenance and support, and professional services through a variety of delivery models. We generally bill customers and collect payment for both our products and services up front.

We generate products revenue from the sale of (1) term or perpetual software licenses for our Nexpose, Metasploit, AppSpider and Komand products, and associated content subscriptions for our Nexpose and Metasploit products, (2) managed services offerings which utilize either our InsightVM, AppSpider or InsightIDR products and (3) cloud-based subscriptions for our InsightIDR, InsightVM, InsightAppSec, Logentries and InsightOps products. We also generate an immaterial amount of appliance revenue that is included in our products revenue and that is associated with hardware sold with our Nexpose product to certain customers. We generate maintenance and support revenue associated with customers' purchases of our software licenses for Nexpose, Metasploit and AppSpider. We generate professional service revenue from the sale of our deployment and training services related to our solutions, incident response services and security advisory services.

Revenue is only recognized when all of the following are met:

- *Persuasive evidence of an arrangement exists*. Binding agreements or purchase orders are generally evidence of an arrangement.
- *Delivery has occurred*. Delivery occurs (1) upon delivery of the software license key or when the customer has access to the software product or (2) when we perform the services.
- *The sales price is fixed or determinable*. Fees are considered fixed and determinable when the fees are contractually agreed upon with the customer.

- *Collectability is probable*. Collectability is deemed probable based on review of a number of factors, including creditworthiness and customer payment history. If collectability is not probable, revenue is deferred until collection becomes probable, which is generally upon the receipt of payment.

Substantially all of our software licenses are sold in multiple-element arrangements that include maintenance and support and content subscriptions, and in addition could include cloud-based subscriptions, professional services and/or managed services. All of these elements are considered to be software elements other than cloud-based subscriptions and managed services which are non-software elements. Non-software elements included in multiple-element arrangements consist of a single deliverable that has stand-alone value and that represents a single unit of accounting. We have determined that we do not have vendor-specific objective evidence, or VSOE, of the selling price for the elements comprising these multiple-element arrangements as our software licenses are generally not sold on a stand-alone basis and we purposefully employ variable pricing for our offerings in order to meet customer purchase requirements along the multiple price points of the demand curve.

When all of the elements of a multiple-element arrangement are software elements, the revenue for software licenses and any other products and services that are sold along with the license is generally deferred on our balance sheet and recognized as revenue on our consolidated statements of operations ratably over the contractual period of the maintenance and support, typically one to three years, which is longer than the period over which the professional services are performed. Revenue recognition begins upon delivery of the software license, assuming that all other criteria for revenue recognition have been met.

When a multiple-element arrangement includes both software elements and non-software elements, the total arrangement consideration is first allocated between the software elements and the non-software elements based on the selling price hierarchy, which includes (1) VSOE, if available, (2) third-party evidence, or TPE, if VSOE is not available or (3) best estimate of selling price, or BESP, if neither VSOE nor TPE is available. We have not been able to establish a selling price for any element using VSOE or TPE. We determine BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include our discounting practices, the size and volume of our transactions, our price lists, our go-to-market strategy, historical standalone sales and contract prices. The portion of the consideration allocated to the non-software elements are recognized ratably over the service period of the non-software elements, assuming all other criteria for revenue recognition have been met. The portion of the consideration allocated to software elements is recognized as described above.

With respect to our managed services and cloud-based subscription offerings sold on a stand-alone basis, we recognize revenue ratably over the term of the managed service agreement or subscription, assuming that the other criteria for revenue recognition are met.

We recognize revenue from professional services sold on a stand-alone basis as those services are rendered.

For purposes of disclosing revenue by class, we allocate the arrangement consideration for multiple-element software arrangements among the individual elements utilizing BESP, as we do not have VSOE or TPE of selling price for any of the elements.

(d) Deferred Revenue

Deferred revenue consists of amounts that have been invoiced but that have not been recognized as revenue. Deferred revenue that will be realized during the succeeding 12-month period is recorded as current, and the remaining deferred revenue is recorded as non-current.

(e) Cash and Cash Equivalents

We consider all highly liquid instruments with original maturities of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents are recorded at cost, which approximates fair value. As of December 31, 2017 and 2016, $0.1 million and $11.0 million, respectively, of our cash equivalents were invested in money market funds and commercial paper.

(f) Restricted Cash

As of December 31, 2017, we have $0.2 million of restricted cash recorded on our balance sheet in other non-current assets as collateral for a credit card program.

(g) Investments

We classify our investments as available-for-sale and record these investments at fair value. We currently invest primarily in commercial paper, corporate bonds, U.S. government agencies and asset-backed securities. Investments with an original maturity of greater than three months at the date of purchase and less than one year from the date of the balance sheet are classified as short-term and those with maturities of more than one year from the date of the balance sheet are classified as long-term in the consolidated balance sheet. Additionally, we do not invest in any securities with contractual maturities greater than 24 months. Unrealized gains and losses that are considered temporary are reported as a component of other comprehensive loss. Realized gains and losses are determined based on the specific identification method, and are reflected in our consolidated statements of operations. We regularly review our investment portfolio to identify and evaluate investments that have indicators of possible impairment. Factors considered in determining whether a loss is other-than-temporary include, but are not limited to: the length of time and extent a security's fair value has been below its cost, the financial condition and near-term prospects of the investee, the credit quality of the security's issuer, likelihood of recovery and our intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in value. For our debt instruments, we also evaluate whether we have the intent to sell the security or it is more likely than not that we will be required to sell the security before recovery of its cost basis.

(h) Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, net of allowances for doubtful accounts. Management regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of outstanding invoices, the customer's expected ability to pay and the collection history, when applicable, to determine whether an allowance is appropriate. Accounts receivable are charged against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. Additions to the allowance for doubtful accounts are recorded in general and administrative expense in the consolidated statement of operations. We do not have any off-balance sheet credit exposure related to our customers. The following table displays the changes in our allowance for doubtful accounts:

	Amount (in thousands)
Balance at December 31, 2014	$ 276
Additions	828
Less write-offs, net of recoveries	(374)
Balance at December 31, 2015	730
Additions	931
Less write-offs, net of recoveries	(600)
Balance at December 31, 2016	1,061
Additions	905
Less write-offs, net of recoveries	(488)
Balance at December 31, 2017	$ 1,478

(i) Concentration of Credit Risk

Financial instruments that potentially expose us to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and short-term and long-term investments. As of December 31, 2017, $0.1 million of our cash equivalents were invested in money market funds. Deposits held with banks may exceed the amount of insurance provided on such deposits. We have not experienced any losses in such accounts and believe that we are not exposed to any significant risk.

We provide credit to customers in the normal course of business. Collateral is not required for accounts receivable, but ongoing credit evaluations of customers' financial condition are performed. We maintain reserves for potential credit losses. No single customer accounted for 10% or more of our total revenues in 2017, 2016 or 2015 or accounts receivable as of December 31, 2017 and 2016.

Our short-term and long-term investments primarily consist of commercial paper, corporate bonds, U.S. government agencies and asset-backed securities. All of our investments are highly-rated by credit rating agencies and are issued by organizations with reputable credit, and therefore bear minimal credit risk.

(j) Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the related asset. All other asset categories are depreciated over three to five years. Upon sale, the cost of assets disposed and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the consolidated statements of operations. Repairs and maintenance costs are expensed as incurred.

(k) Software Development Costs

Software development costs associated with the development of products for sale are recorded to research and development expense until technological feasibility has been established for the product. Once technological feasibility is established, all software costs are capitalized until the product is available for release to customers. To date, the software development costs have not been capitalized as we believe our current software development process is essentially completed concurrently with the establishment of technological feasibility. Such costs are expensed as incurred and recognized in research and development expenses in our consolidated statements of operations.

With respect to software developed for internal use, we capitalize qualifying internal costs, such as payroll and benefits of those employees directly associated with the development of the software, and other qualifying consulting costs. Total unamortized costs relating to software developed for internal use was $1.1 million and $0 as of December 31, 2017 and 2016, respectively.

(l) Long-Lived Assets

We review the carrying value of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. When such events or changes in circumstances occur, recoverability of these assets is measured by a comparison of the carrying value of an asset to the future net undiscounted cash flows directly associated with the asset. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value exceeds the fair value of the asset. We use a discounted cash flow approach or other methods, if appropriate, to assess fair value.

(m) Goodwill and Other Intangible Assets

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. We allocate the cost of an acquired entity to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess of the purchase price for acquisitions over the fair value of the net assets acquired, including other intangible assets, is recorded as goodwill. Goodwill is not amortized but is tested for impairment at least annually or more frequently when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred.

For our goodwill impairment analysis, we operate with a single reporting unit. We test goodwill for impairment on the last day of each fiscal year and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. To test goodwill impairment, we perform a single-step goodwill impairment test to identify potential goodwill impairment. The single-step impairment test begins with an estimation of the fair value of a reporting unit. Goodwill impairment exists when a reporting unit’s carrying value exceeds its fair value. Significant judgment is applied when goodwill is assessed for impairment. In performing the single step of the goodwill impairment testing and measurement process, we estimated the fair value of our single reporting unit using our market capitalization. Based upon our assessment performed as of December 31, 2017, we concluded the fair value of our single reporting unit exceeded its carrying value and there was no impairment of goodwill.

Other intangible assets acquired in a business combination are recognized at fair value using generally accepted valuation methods appropriate for the type of intangible asset and reported separately from goodwill. Intangible assets with definite lives are amortized over the estimated useful lives and are tested for impairment when events or circumstances occur that indicate that it is more likely than not that an impairment has occurred. For the year ended December 31, 2017, we determined there were no indicators of impairment of our other intangible assets.

(n) Translation of Foreign Currencies

The functional currency of our foreign subsidiaries is the U.S. dollar. We translate all monetary assets and liabilities denominated in foreign currencies into U.S. dollars using the exchange rates in effect at the balance sheet dates and other assets and liabilities using historical exchange rates. Foreign currency denominated revenue and expenses have been re-measured using the average exchange rates in effect during each period. Foreign currency transactional and re-measurement gains and losses are included in other income (expense), net. In 2017, we recorded foreign currency transactional gains of $0.1 million and foreign currency re-measurement gains of $0.4 million. In 2016, we recorded nominal foreign currency transactional losses and foreign currency re-measurement losses of $0.1 million. In 2015, we recorded foreign currency transactional losses of $0.1 million and foreign currency re-measurement losses of $0.2 million.

(o) Stock-Based Compensation

We measure and recognize compensation expense for all stock options, restricted stock awards (RSAs), restricted stock units (RSUs) and common stock issued pursuant to our employee stock purchase plan based on the estimated fair value of the award on the grant date. Stock-based compensation expense is recognized on a straight-line basis over the requisite service period, which is generally the same as the vesting period. Beginning January 1, 2017 with the adoption of ASU 2016-09, we elected to recognize forfeitures as they occur, and no longer estimate a forfeiture rate when calculating the stock-based compensation expense.

(p) Sales Commissions

Sales commissions are recognized in the period that the commissions are earned by our employees, which is typically upon signing of an arrangement. Under our sales commission policy, the amount of sales commissions expense attributable to the sales arrangement signed in the period is recognized fully in that period; however, the revenue from the sales arrangement is generally recognized ratably over the contractual period of the applicable agreement.

(q) Advertising

Advertising costs are expensed as incurred, and are recorded in sales and marketing expense in our consolidated statement of operations. We incurred $8.4 million, $6.0 million and $4.3 million in advertising expense in 2017, 2016 and 2015, respectively.

(r) Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and operating loss and tax credit carryforwards using tax rates expected to be in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that all of, or a portion of, deferred tax assets will not be utilized in the future.

We account for unrecognized tax benefits using a more-likely-than-not threshold for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. Interest and penalties associated with such uncertain tax positions are classified as a component of income tax expense.

(s) Net Loss per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is computed by dividing our net loss attributable to common stockholders by the weighted-average number of common shares used in the loss per share calculation during the period. Diluted net loss per share attributable to common stockholders is computed by giving effect to all potentially dilutive securities, including stock options, RSAs, RSUs, warrants and redeemable convertible preferred stock. Basic and diluted net loss per share attributable to common stockholders was the same for all periods presented as the inclusion of all potentially dilutive securities outstanding was anti-dilutive.

(t) Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, *Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment* (Topic 350), which simplifies the subsequent measurement of goodwill by removing step two of goodwill impairment test that requires the determination of the fair value of individual assets and liabilities of a reporting unit. The ASU requires goodwill impairment to be measured as the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This ASU will be applied prospectively and is effective for us in the first fiscal quarter of 2020, with early adoption permitted. We adopted the guidance during the fourth fiscal quarter of 2017, prior to our annual testing of goodwill impairment. There was no impact on our consolidated financial position, results of operations or cash flows as a result of the adoption.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The ASU is intended to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification on the statement of cash flows. We adopted this ASU on January 1, 2017 and as a result, we have made an accounting policy election to account for forfeitures as they occur. This change has been applied on a modified retrospective basis, resulting in a cumulative-effect adjustment to increase accumulated deficit by $0.1 million as of January 1, 2017. The adoption of this ASU also requires excess tax benefits and tax deficiencies be recorded in the income statement as opposed to additional paid-in capital when the awards vest or are settled, and has been applied on a prospective basis. In connection with the adoption of this ASU, we recorded a cumulative-effect adjustment as of January 1, 2017 to increase gross deferred tax assets and the related valuation allowance against deferred tax assets by $3.4 million. The provisions related to classification of excess tax benefits in the statement of cash flows were adopted prospectively, and as such, the prior periods were not retrospectively adjusted.

Accounting Pronouncements Not Yet Effective

In May 2017, the FASB issued ASU 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting*, clarifying when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. The ASU requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. The ASU will be effective for us on a prospective basis beginning on January 1, 2018. This ASU is not expected to have an impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which provides guidance on the treatment of restricted cash in the statements of cash flows. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance is effective for the fiscal year beginning on January 1, 2018 including interim periods within that year. This ASU is not expected to have a material impact on our consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. The ASU is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The ASU will allow an entity to recognize the income tax consequences of these transfers when the transfers occur. The ASU will be effective for us in the first quarter of 2018. This ASU is not expected to have an impact on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The ASU requires companies to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leased assets. The ASU will be effective for us in the first quarter of 2019, with early adoption permitted. We are currently evaluating the impact that the adoption of this ASU will have on our consolidated financial statements. Although we have not finalized our process of evaluating the impact of adoption of the ASU on our consolidated financial statements, we expect there will be a material increase to assets and liabilities related to the recognition of new right-of-use assets and lease liabilities on our balance sheet for leases currently classified as operating leases.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new revenue standard outlines a single, comprehensive model for accounting for revenue from contracts with customers and requires more detailed disclosure to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from such contracts. The new revenue standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

We will adopt ASU 2014-09 as of January 1, 2018, using the modified retrospective method. Under this method of adoption, we will recognize the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit in the period of initial application. Comparative prior year periods will not be adjusted.

While, we are still finalizing our evaluation, we anticipate the new revenue standard will have a material impact on our consolidated financial statements and disclosures upon adoption.

Based on our analysis performed to date, we expect the following changes to revenue:

- The recognition of total revenue related to our managed services, cloud-based subscriptions, stand-alone professional services and certain term software licenses, to remain substantially unchanged.

- For our term and perpetual licenses which are not dependent on the continued delivery of content subscriptions, we expect that the perpetual software license revenue will be recognized at the time of delivery. We currently recognize revenue of this nature over the contractual period of maintenance and support due to the lack of vendor-specific objective evidence (VSOE) of selling price of the maintenance and support.

- For our perpetual licenses where the utility to the customer is dependent on the continued delivery of content subscriptions, the content subscription renewal options result in a material right with respect to the perpetual license. As a result, we expect to recognize the revenue related to the sale of these perpetual software licenses ratably over the customer's estimated economic life of 5 years, rather than over the contractual period of maintenance and support. The customer's estimated economic life represents a longer period of time in comparison to the initial contractual period of maintenance and support. The revenue related to the sale of content subscriptions and maintenance and support will continue to be recognized over the contractual period.

- For term and perpetual software licenses that are sold with professional services in a multiple-element arrangement, we expect that the professional services will represent a distinct performance obligation and we will therefore recognize revenue associated with the professional services as such services are performed. Revenue associated with professional services in a multiple-element arrangement is currently recognized ratably over the related contractual period of maintenance and support (typically one to three years) due to the lack of VSOE of selling price for all of the undelivered elements in the arrangement.

- For all multiple-element arrangements, we expect that the allocation of contract consideration to be on a relative fair value basis. Currently, for all multiple-element arrangements which contain software elements, we allocate contract consideration on a residual basis. This change in allocation will impact both the timing of revenue recognition and the presentation of revenue by class for certain arrangements.

For the items described above, we expect that the cumulative effect adjustment to deferred revenue as of January 1, 2018 will be immaterial. However, the timing of when revenue will be recognized from deferred revenue will change as noted above.

In addition to the revenue changes noted above, we expect the following additional change:

- The direct and incremental costs to obtain contracts with customers, such as sales commissions, will be deferred and recognized over a period of benefit that we have determined to be five years rather than expensing them as incurred in the period that the commissions are earned by our employees (which is typically upon signing of an arrangement). In addition, contract fulfillment costs associated with certain of our product offerings will be deferred and amortized over a period of benefit. Such costs are currently expensed as incurred. We expect to record an asset upon adoption of approximately $28.0 million related to the incremental costs to obtain contracts and contract fulfillment costs for customer contracts which are not complete as of January 1, 2018.

These amounts represent management's best estimates of the effects of adopting the new standard at the time of the preparation of this Annual Report on Form 10-K. The actual impact of the new standard is subject to change from these estimates pending the completion of our assessment in the first quarter of 2018.

The new standard will also impact our internal control environment, including our financial statement disclosure controls, our business process controls and enhancements necessary to update our business systems. We are currently finalizing the implementation controls necessary to adopt this new standard.

(3) Business Combinations

Komand, Inc.

On July 12, 2017, we acquired 100% of the outstanding equity of Komand, Inc. (Komand) for total cash consideration of $14.8 million. We expensed the related acquisition costs of $0.2 million in general and administrative expense.

The following table summarizes the cash consideration paid for Komand and the preliminary allocation of purchase price to the estimated fair value of the assets acquired and liabilities assumed at the acquisition date (in thousands):

Cash consideration	$	14,781
Recognized amount of identifiable assets acquired and liabilities assumed:		
Net working capital		(21)
Deferred tax liability		(2,632)
Intangible assets		9,380
Total identifiable net assets assumed		6,727
Goodwill		8,054
Total purchase price allocation	$	14,781

The fair value of the identifiable intangible asset was based on a valuation using a combination of the income and cost approaches. The estimated fair value and useful life of the identifiable intangible asset was as follows:

	Amount	Weighted Average Amortization Life (years)
	(in thousands)	
Developed technology	$ 9,380	5
Identifiable intangible assets	$ 9,380	

The excess of the purchase price over the tangible assets acquired, identifiable intangible asset acquired and assumed liabilities was recorded as goodwill. We believe that the amount of goodwill reflects the expected synergistic benefits of being able to leverage the integration of our existing product offerings and services with the products and technology acquired in connection with our acquisition of Komand and to successfully market and sell these new products to our customer base. The goodwill was allocated to our one reporting unit. The acquired goodwill and intangible asset will not be deductible for tax purposes. Accordingly, a $2.6 million deferred tax benefit was recorded resulting from a partial release of our valuation allowance to account for the creation of a deferred tax liability for the developed technology intangible asset acquired which is not deductible for tax purposes.

These preliminary amounts are subject to subsequent adjustment as we obtain additional information to finalize certain components of working capital.

Following the acquisition, certain retained employees of Komand (i) received an aggregate of 295,600 RSUs which will vest over four years and (ii) shall be eligible for an aggregate of up to $5.0 million of incentive payments contingent on achievement of certain milestones within four years of the acquisition date. The vesting of the RSUs and eligibility to receive the incentive payments are each subject to the employee's continued service with us. Accordingly, compensation expense associated with the RSUs and incentive payments will be expensed as incurred in our post-acquisition financial statements.

Proforma results of operations have not been included, as the acquisition of Komand was not material to our results of operations for any periods presented.

RevelOps, Inc.

On October 13, 2015, we acquired 100% of the outstanding equity of RevelOps, Inc. (d/b/a Logentries) for total consideration of $68.1 million. We made an initial payment of $36.2 million in cash, issued 1,252,627 shares of our common stock with an aggregate fair value of $27.4 million, inclusive of a discount from the quoted market price due to certain trading restrictions associated with the shares, and issued vested replacement options with respect to 221,759 shares of our common stock to certain continuing employees with an aggregate fair value of $4.5 million upon the closing of the acquisition. The fair value of the vested replacement options included in the purchase price was based on the fair value of the vested Logentries options on the acquisition date. The excess fair value when comparing the fair value of the new vested replacement options and the vested Logentries options of $0.3 million was expensed immediately in the post-combination financial statements of the combined entity.

The assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The excess of the purchase price over the assets acquired and liabilities assumed was recorded as goodwill. The fair value of goodwill, intangible assets and net tangible assets were $59.2 million, $9.4 million and $(0.5) million, respectively.

NT OBJECTives, Inc.

On April 30, 2015, we acquired 100% of the outstanding equity of NT OBJECTives, Inc. (NTO) for total consideration of $6.1 million. We made an initial cash payment of $3.4 million and issued 9,091 shares of our common stock with an aggregate fair value of $0.1 million upon the closing of the acquisition. We were also obligated to pay $0.1 million in cash for the settlement of a working capital adjustment and make two additional payments of $1.5 million each, less the amount of any indemnity claims. The net present value of these two additional payments, or $2.5 million, was included in the total purchase consideration paid. In December 2016, we paid the first of the two additional payments of $1.5 million, as well as the $0.1 million working capital adjustment. In April 2017, we made the second payment of $1.0 million which was a negotiated settlement of the original $1.5 million amount due as a result of certain indemnity claims made.

The assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The excess of the purchase price over the assets acquired and liabilities assumed was recorded as goodwill. The fair value of goodwill, intangible assets and net tangible assets were $4.6 million, $2.1 million and $(0.6) million, respectively.

In May 2015, we entered into loan agreements with certain retained employees of NTO in the aggregate amount of $0.5 million. The terms of these agreements required the employees to pay us the total amount borrowed, with accrued interest at 1.7% per annum, within 18 months of the agreement date. The loan agreements were secured by restricted stock awards granted to the employees. The loans were repaid in full.

(4) Fair Value Measurements and Investments

We measure certain financial assets and liabilities at fair value. Fair value is determined based upon the exit price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, as determined by either the principal market or the most advantageous market. Inputs used in the valuation techniques to derive fair values are classified based on a three-level hierarchy, as follows:

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

We consider an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and consider an inactive market to be one in which there are infrequent or few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers.

The following table presents our financial assets measured and recorded at fair value on a recurring basis using the above input categories:

	As of December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Description:				
Assets:				
Money market funds	$ 95	$ —	$ —	$ 95
U.S. Government agencies	11,869	—	—	11,869
Commercial paper	—	12,942	—	12,942
Corporate bonds	—	12,964	—	12,964
Asset-backed securities	—	2,505	—	2,505
Total assets	$ 11,964	$ 28,411	$ —	$ 40,375

	As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Description:				
Assets:				
Money market funds	$ 10,085	$ —	$ —	$ 10,085
U.S. Government agencies	14,982	—	—	14,982
Commercial paper	—	8,078	—	8,078
Corporate bonds	—	10,314	—	10,314
Asset-backed securities	—	6,467	—	6,467
Total assets	$ 25,067	$ 24,859	$ —	$ 49,926

We had no financial liabilities measured and recorded at fair value on a recurring basis as of December 31, 2017 and 2016.

Our investments, which are all classified as available-for-sale, consisted of the following:

	As of December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Description:				
U.S. Government agencies	$ 11,880	$ —	$ (11)	$ 11,869
Commercial paper	12,942	—	—	12,942
Corporate bonds	12,991	—	(27)	12,964
Asset-backed securities	2,506	—	(1)	2,505
Total	$ 40,319	$ —	$ (39)	$ 40,280

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Description:				
U.S. Government agencies	$ 14,992	$ 3	$ (13)	$ 14,982
Commercial paper	7,178	—	—	7,178
Corporate bonds	10,326	1	(13)	10,314
Asset-backed securities	6,464	4	(1)	6,467
Total	$ 38,960	$ 8	$ (27)	$ 38,941

As of December 31, 2017 and 2016, our available-for-sale investments had maturities ranging from 3 months to 2 years.

Our available-for-sale investments as of December 31, 2016 included $0.9 million of commercial paper investments which are classified as cash and cash equivalents as the original maturity was less than three months.

For all of our investments for which the amortized cost basis was greater than the fair value at December 31, 2017 and 2016 we have concluded that there is no plan to sell the security nor is it more likely than not that we would be required to sell the security before its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating and the time to maturity.

(5) Property and Equipment

Property and equipment are recorded at cost and consist of the following:

	As of December 31,	
	2017	2016
	(in thousands)	
Computer equipment and software	$ 16,205	$ 12,844
Furniture and fixtures	4,034	3,131
Leasehold improvements	9,079	8,077
Total	29,318	24,052
Less accumulated depreciation	(20,729)	(15,964)
Property and equipment, net	$ 8,589	$ 8,088

We recorded depreciation expense of $4.8 million, $4.3 million and $4.1 million in 2017, 2016 and 2015, respectively.

(6) Goodwill and Intangible Assets

Goodwill was $83.2 million and $75.1 million as of December 31, 2017 and 2016, respectively. There were no goodwill impairment charges in 2017, 2016 or 2015. The following table displays the changes in the gross carrying amount of goodwill:

	Amount
	(in thousands)
Balance at December 31, 2015	$ 74,565
Logentries acquisition accounting adjustments	545
Balance at December 31, 2016	$ 75,110
Komand acquisition	8,054
Balance at December 31, 2017	$ 83,164

The following table presents details of our intangible assets which include acquired identifiable intangible assets and capitalized internal-use software costs:

	Weighted-Average Life (years)	As of December 31, 2017			As of December 31, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
		(in thousands)					
Intangible assets subject to amortization:							
Developed technology	5.7	$ 20,611	$ (5,756)	$ 14,855	$ 11,231	$ (3,118)	$ 8,113
Customer relationships	6.7	1,000	(351)	649	1,000	(197)	803
Trade names	6.1	519	(510)	9	519	(496)	23
Non-compete agreements	2.0	40	(40)	—	40	(33)	7
Total acquired intangible assets		22,170	(6,657)	15,513	12,790	(3,844)	8,946
Internal-use software		1,162	(35)	1,127	—	—	—
Total intangible assets		$ 23,332	$ (6,692)	$ 16,640	$ 12,790	$ (3,844)	$ 8,946

Intangible assets are expensed on a straight-line basis over the useful life of the asset. We recorded amortization expense of $2.8 million, $2.4 million and $1.3 million in 2017, 2016 and 2015, respectively.

Estimated future amortization expense of the acquired identifiable intangible assets and completed capitalized internal-use software costs as of December 31, 2017 is as follows (in thousands):

2018	$ 3,875
2019	3,847
2020	3,790
2021	3,208
2022	1,095
2023 and thereafter	—
Total	$ 15,815

The table above excludes the impact of $0.8 million of capitalized internal-use software costs for projects that have not been completed as of December 31, 2017, and therefore, we have not determined the useful life of the software, nor have all the costs associated with these projects been incurred.

(7) Stockholders' Equity

(a) Redeemable Convertible Preferred Stock

Upon the closing of the IPO in 2015, all of our outstanding preferred stock automatically converted into 18,322,605 shares of common stock, which included 1,939,990 additional shares of common stock issued upon conversion of our Series D preferred stock (IPO Participation Payment). As a result of the IPO Participation Payment, we recorded a $14.2 million beneficial conversion charge during the year ended December 31, 2015. The amount of the beneficial conversion charge was calculated by multiplying the total number of shares of common stock issued upon the conversion of our Series D preferred stock, including the additional shares of common stock issued in connection with the IPO Participation Payment, by the difference between the fair market value of our common stock at the time of the original issuance of the Series D preferred stock and the effective conversion price of the Series D preferred stock, which is calculated as the aggregate proceeds from the sale of Series D preferred stock, divided by the total number of shares of common stock issued upon conversion of our Series D preferred stock, including the additional shares of common stock issued in connection with the IPO Participation Payment.

No redeemable convertible preferred stock was outstanding as of December 31, 2017 or 2016.

(b) Common Stock

On October 13, 2015, we issued 1,252,627 shares of our common stock in connection with our acquisition of Logentries.

On July 22, 2015, we closed our IPO of 7,417,500 shares of common stock at an offering price of $16.00 per share, including 967,500 shares pursuant to the underwriters’ option to purchase additional shares, resulting in net proceeds of $107.3 million, after deducting underwriting discounts and commissions of $8.3 million and offering expenses of $3.1 million.

On July 22, 2015, concurrently with the closing of our IPO, we issued and sold to entities affiliated with Technology Crossover Ventures 312,500 shares of our common stock in a private placement at a price equal to the IPO price of $16.00 per share, resulting in net proceeds to us of $5.0 million.

Additionally, in connection with the closing of our IPO, we filed an amended and restated certificate of incorporation to, among other things (i) increase the total number of shares of our common stock that we are authorized to issue to 100,000,000 and (ii) eliminate all references to the various series of preferred stock that were previously authorized (including certain protective measures held by the various series of preferred stock), except for the reference to 10,000,000 shares of undesignated preferred stock that may be issued, and with terms to be set, by our board of directors.

On April 30, 2015, we issued 9,091 shares of our common stock in connection with our acquisition of NTO.

(c) Treasury Stock

In 2017 and 2016, we repurchased 22,754 and 62,428 shares of common stock, respectively, for an aggregate amount of $0.4 million and $0.9 million, respectively, to settle employee withholding taxes upon the vesting of restricted stock awards.

(d) Common Stock Warrants

In December 2013, we issued warrants to purchase 200,000 shares of common stock to a financial institution in connection with the term loan agreement. In each of the years 2016 and 2015, warrants with respect to 100,000 shares of common stock were exercised, with net shares issued of 28,774 and 53,535, respectively. As of December 31, 2016, no warrants remained unexercised.

(8) Stock-Based Compensation

(a) General

In connection with our IPO, our board of directors resolved not to make future grants under our 2011 Stock Option and Grant Plan (the 2011 Plan). The 2011 Plan will continue to govern outstanding awards granted thereunder. The 2011 Plan provided for the grant of qualified incentive stock options and nonqualified stock options or other awards such as RSAs to our employees, officers, directors and outside consultants.

In July 2015, our board of directors adopted and our stockholders approved our 2015 Equity Incentive Plan (the 2015 Plan). We initially reserved 800,000 shares of our common stock for the issuance of awards under the 2015 Plan plus the number of shares of common stock reserved for issuance under the 2011 Plan at the time the 2015 Plan became effective. The 2015 Plan also provides that (i) any shares subject to awards granted under the 2011 Plan that would have otherwise returned to the 2011 Plan (such as upon the expiration or termination of a stock award prior to vesting) will be added to, and available for issuance under, the 2015 Plan and (ii) the number of shares reserved and available for issuance under the 2015 Plan automatically increases each January 1, beginning on January 1, 2016, by 4% of the outstanding number of shares of our common stock on the immediately preceding December 31 (known as the “evergreen” provision) or such lesser number of shares as determined by our board of directors. Additionally, on October 8, 2015, our board of directors amended, effective as of the acquisition of Logentries, the 2015 Plan to reserve an additional 1,500,000 shares of our common stock for issuance of inducement awards.

In March 2017 and 2016, we increased the number of shares authorized to be issued under the 2015 Plan by 1,702,187 and 1,661,616 shares, respectively, which represents the amount automatically added pursuant to the annual evergreen provision contained therein. As of December 31, 2017, the shares of common stock authorized to be issued under the 2015 Plan totaled 10,125,932 and there were 879,729 shares of common stock available for grant.

We recognize stock-based compensation expense for all awards on a straight-line basis over the applicable vesting period, which is generally four years.

Stock-based compensation expense for restricted stock, restricted stock units, stock options and issuances of common stock pursuant to our employee stock purchase plan was classified in the accompanying consolidated statements of operations as follows:

	Year Ended December 31,		
	2017	2016	2015
		(in thousands)	
Stock-based compensation expense:			
Cost of revenue	$ 1,085	$ 610	$ 532
Research and development	7,205	6,054	5,010
Sales and marketing	5,756	6,607	3,139
General and administrative	5,495	4,045	2,004
Total stock-based compensation expense	$ 19,541	$ 17,316	$ 10,685

(b) Restricted Stock and Restricted Stock Units

Restricted stock and restricted stock unit activity during 2017, 2016 and 2015 was as follows:

	Restricted Stock		Restricted Stock Units	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of December 31, 2014	4,185	$ 1.35	—	$ —
Granted	1,358,505	19.29	—	—
Vested	(204,732)	18.48	—	—
Forfeited	(8,701)	23.01	—	—
Unvested balance as of December 31, 2015	1,149,257	19.34	—	—
Granted	—	—	919,397	13.37
Vested	(538,896)	20.67	(91,020)	12.93
Forfeited	(25,357)	20.96	(93,800)	12.97
Unvested balance as of December 31, 2016	585,004	18.05	734,577	13.47
Granted	—	—	1,938,860	14.97
Vested	(358,214)	17.85	(435,573)	13.80
Forfeited	(16,707)	23.01	(249,355)	14.22
Unvested balance as of December 31, 2017	210,083	$ 18.00	1,988,509	$ 14.77

As of December 31, 2017, the unrecognized compensation cost related to shares of unvested restricted stock and restricted stock units expected to vest was $29.8 million. This unrecognized compensation will be recognized over an estimated weighted-average amortization period of 2.8 years.

(c) Stock Options

The following table summarizes information about stock option activity during the reporting periods:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2014	3,561,304	$ 4.62		
Granted	1,035,459	11.13		
Options assumed from acquisition	221,759	1.65		
Exercised	(385,328)	3.50		$ 3,472
Forfeited/cancelled	(186,669)	8.33		
Outstanding as of December 31, 2015	4,246,525	5.99		
Granted	1,454,626	13.43		
Exercised	(650,185)	4.43		$ 6,409
Forfeited/cancelled	(470,591)	9.65		
Outstanding as of December 31, 2016	4,580,375	8.20		
Granted	1,304,238	13.52		
Exercised	(887,062)	6.59		$ 9,665
Forfeited/cancelled	(312,597)	12.79		
Outstanding as of December 31, 2017	4,684,954	$ 9.68		$ 42,247
Vested and exercisable as of December 31, 2017	2,773,387	$ 7.18		$ 31,944

As of December 31, 2017, the unrecognized compensation cost related to our unvested stock options expected to vest was $10.8 million. This unrecognized compensation will be recognized over an estimated weighted-average amortization period of 2.5 years.

The total fair value of stock options vested in 2017, 2016 and 2015 was $5.9 million, $3.4 million and $3.4 million, respectively. The weighted-average grant date fair value per share of stock options granted in 2017, 2016 and 2015 was $6.72, $6.38 and $5.01 per share, respectively.

(d) Determining the Fair Value of Options

We use the Black-Scholes option pricing model to estimate the fair value of stock option awards. The Black-Scholes option pricing model requires management to make a number of other assumptions, including the expected life of the option, the volatility of the underlying stock, the risk-free interest rate and expected dividends. The assumptions used in our Black-Scholes option-pricing model represent management's best estimates at the time of grant. These estimates are complex, involve a number of variables, uncertainties and assumptions and the application of management's judgment, as they are inherently subjective. If any assumptions change, our stock-based compensation expense could be materially different in the future.

Expected Term

The expected term represents the period that our stock options are expected to be outstanding. We calculated the expected term using the simplified method based on the average of each option's vesting term and the contractual period during which the option can be exercised, which is typically 10 years following the date of grant.

Expected Volatility

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

Risk-Free Interest Rate

The risk-free interest rate was based on U.S. Treasury zero-coupon securities with maturities consistent with the estimated expected term.

Expected Dividend Yield

We have not paid dividends on our common stock nor do we expect to pay dividends in the foreseeable future.

The following table reflects the range of assumptions for options granted during 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
Expected term (in years)	5.5 - 6.1	5.5 – 6.3	6.3
Expected volatility	48 – 52%	48 – 50%	42 – 48%
Risk-free interest rate	1.8 – 2.2%	1.2 – 1.9%	1.5 – 1.8%
Expected dividend yield	—	—	—
Grant date fair value per share	$ 6.09 – 9.38	$ 5.53 – 8.35	$ 4.39 – 10.09

(e) Employee Stock Purchase Plan

On July 17, 2015, we filed a registration statement on Form S-8 with the Securities and Exchange Commission registering 800,000 shares of our common stock reserved under our 2015 Employee Stock Purchase Plan (ESPP). Under the ESPP, employees may set aside after-tax withholdings to purchase our common shares at a discounted price. In March 2017 and 2016, we increased the number of shares to be authorized under the ESPP by 425,547 and 415,404 shares, respectively, which represents the amount automatically added pursuant to the annual evergreen provision of the ESPP. As of December 31, 2017, the shares of common stock authorized to be issued under the ESPP totaled 1,640,951 and there were 1,047,444 shares of common stock available for grant.

Under the ESPP, employees may set aside up to 15% of their gross earnings, on an after-tax basis, to purchase our common shares at a discounted price, which is calculated at 85% of the lesser of: (i) the market value of our common stock at the beginning of each offering period and (ii) the market value of our common stock on the applicable purchase date.

The following table reflects the assumptions used in the Black Scholes option pricing model to calculate the expense related to the ESPP:

	Year Ended December 31,		
	2017	2016	2015
Expected term (in years)	0.5 - 1.0	0.5 - 1.0	0.5 - 1.2
Expected volatility	37 – 40%	42 – 49%	37 – 41%
Risk-free interest rate	0.9 – 1.3%	0.5 – 0.7%	0.1 – 0.3%
Expected dividend yield	—	—	—
Grant date fair value per share	$ 4.01 – 5.35	$ 3.58 – 5.49	$ 4.33 – 7.91

On March 15, 2016, we issued 192,676 shares of common stock to employees for aggregate proceeds of $2.1 million. The purchase price of the shares of common stock was $10.88 per share, which was discounted in accordance with the terms of the ESPP from the closing price of our common stock on March 15, 2016 of $12.80.

On September 15, 2016, we issued 153,602 shares of common stock to employees for aggregate proceeds of $1.6 million. The purchase price of the shares of common stock was $10.60 per share, which was discounted in accordance with the terms of the ESPP from the closing price of our common stock on March 16, 2016 of $12.47.

On March 15, 2017, we issued 138,085 shares of common stock to employees for aggregate proceeds of $1.5 million. The purchase prices of the shares of common stock were $10.60 and $12.79 per share, which were discounted in accordance with the terms of the ESPP from the closing prices of our common stock on March 16, 2016 of $12.47 and on March 15, 2017 of $15.05, respectively.

On September 15, 2017, we issued 109,144 shares of common stock to employees for aggregate proceeds of $1.4 million. The purchase price of the shares of common stock was $12.96 per share, which was discounted in accordance with the terms of the ESPP from the closing price of our common stock on March 16, 2017 of $15.25.

(9) Income Taxes

Loss before income taxes included in the consolidated statements of operations was as follows:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
United States	$ (22,757)	$ (41,466)	$ (43,020)
Foreign	(24,949)	(7,561)	(6,341)
Loss before income taxes	$ (47,706)	$ (49,027)	$ (49,361)

Income tax (benefit) expense included in the consolidated statements of operations was as follows:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Current:			
Federal	$ 333	$ 493	$ —
State and local	128	61	116
Foreign	163	(656)	261
Total current (benefit) expense	624	(102)	377
Deferred:			
Federal	(2,885)	98	98
State and local	8	13	11
Foreign	17	(36)	10
Total deferred expense	(2,860)	75	119
Income tax (benefit) expense	$ (2,236)	$ (27)	$ 496

The table below reconciles the differences between income taxes computed at the federal statutory rate of 34% and our provision for income taxes:

	Year Ended December 31,		
	2017	2016	2015
Expected income tax	34.0 %	34.0 %	34.0 %
State taxes, net of federal benefit	(0.2)	(0.1)	(0.1)
Permanent differences	4.2	(1.4)	(3.0)
Federal research and development credit	1.0	2.4	0.6
Foreign rate differential	(8.7)	(3.0)	(3.3)
Change in valuation allowance	(26.1)	(31.9)	(29.9)
Other	0.5	0.1	0.7
Total income tax benefit (expense)	4.7 %	0.1 %	(1)%

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (Tax Act) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a federal corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system and a one-time transition tax on the mandatory deemed repatriation of foreign earnings (transition tax). We have recorded a one-time income tax benefit of $0.4 million in the fourth quarter of 2017 as a result of the Tax Act. The one-time income tax benefit includes $0.2 million related to the remeasurement of certain deferred tax assets and liabilities based on the lower tax rates at which they are expected to reverse in the future. The one-time income tax benefit also includes a provisional amount of $0.2 million related to the release of valuation allowance against alternative minimum tax (AMT) credits that we will receive a benefit for in the form an AMT tax refund. We have not recorded any transition tax on foreign earnings as we have preliminarily concluded that all our foreign subsidiaries have an accumulated deficit.

On December 22, 2017, the SEC issued Staff Accounting Bulletin (SAB) 118, which provides guidance for companies analyzing their accounting for the income tax effects of the Tax Act. SAB 118 provides that a company may report provisional amounts based on reasonable estimates. The provisional estimates are then subject to adjustment during a measurement period up to one year and should be accounted for as a prospective change. We continue to evaluate our transition tax obligation and expect to finalize our conclusion by the end of fiscal 2018. The provisional amounts recorded are based on our current interpretation and understanding of the Tax Act, are judgmental and may change as we receive additional clarification and implementation guidance. Changes to these provisional amounts could result in additional charges or credits in future reporting periods.

Net deferred tax assets and liabilities, as set forth in the table below, reflect the impact of temporary differences between the amounts of assets and liabilities recorded for financial statement purposes and such amounts measured in accordance with tax laws:

	As of December 31,	
	2017	2016
	(in thousands)	
Deferred tax assets:		
Accruals and reserves	$ 636	$ 458
Net operating loss carryforwards	36,778	35,492
Deferred revenue	11,985	16,471
Amortization	—	3,356
Research and development credits	2,441	1,775
Stock-based compensation	3,702	4,999
Other	2,194	3,959
Total deferred tax assets	57,736	66,510
Deferred tax liabilities:		
Intangible assets	(616)	(534)
Depreciation	(54)	(102)
Total deferred tax liabilities	(670)	(636)
Less: Valuation allowance	(57,359)	(66,395)
Net deferred tax liabilities	$ (293)	$ (521)

We recorded a deferred tax provision of $0.1 million for 2017, 2016 and 2015 relating to tax amortization of goodwill with a corresponding increase to the deferred tax liability. As of December 31, 2017, we have evaluated the need for a valuation allowance on deferred tax assets. In assessing whether the deferred tax assets are realized, management considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Due to our history of generating losses in the United States, the United Kingdom and Ireland, we continue to record a full valuation allowance against our deferred tax assets in these jurisdictions. If we achieve future profitability, a significant portion of these deferred tax assets could be available to offset future income taxes.

The valuation allowance decreased by $9.0 million for the year ended December 31, 2017, primarily due to the revaluation of U.S. deferred tax assets and liabilities at a lower U.S. corporate income tax rate of 21% required as part of the Tax Act and a deferred tax benefit recorded as part of the Komand acquisition purchase accounting adjustments partially offset by additional operating losses generated during the year.

We have not provided for U.S. income taxes on the undistributed earnings of our non-U.S. subsidiaries, as we plan to permanently reinvest these amounts.

As of December 31, 2017, we had federal and state net operating loss carryforwards of $116.6 million and $81.0 million, respectively. The federal and state net operating loss carryforward expire at various dates beginning in 2030. As of December 31, 2017, we had foreign net operating loss carryforwards of $65.3 million that can be carried forward indefinitely.

We also had federal, state and international research and development credit carryforwards of $1.8 million , $0.7 million and $0.1 million as of December 31, 2017, respectively. These credit carryforwards expire at various dates beginning in 2023.

We believe that a change of ownership within the meaning of Section 382 and 383 of the Internal Revenue Code of 1986, as amended, occurred in 2011. Under Section 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change,” generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period, the corporation’s ability to use its pre-change net operating loss carryforwards, or NOLs, and other pre-change tax attributes, such as research and development credits, to offset its post-change income may be limited. As a result, our U.S. federal net operating loss and research and development credit utilization will be limited to an amount equal to the market capitalization at the time of the ownership change multiplied by the federal long-term tax exempt rate. We do not believe that any of our net operating losses or research and development credits will expire as a result of this limitation.

We file income tax returns in all jurisdictions in which we operate. We have established reserves to provide for additional income taxes that management believes will more likely or not be due in future years. The reserves have been established based upon our assessment as to the potential exposure. Changes in our reserves for unrecognized income tax benefits are as follows:

	Amount (in thousands)
Balance at December 31, 2015	$ 141
Additions based on current year tax positions	247
Balance at December 31, 2016	388
Decreases based on settlements with taxing authorities	(343)
Reductions based on lapse in statute of limitations	(16)
Balance at December 31, 2017	$ 29

In the normal course of business, we are subject to examination by federal, state, and foreign jurisdictions, where applicable. The statute of limitations for these jurisdictions is generally three to six years. However, to the extent we utilize net operating losses or other similar carryforward attributes such as credits, the statute remains open to the extent of the net operating losses or credits that are utilized. We have no tax returns under examination as of December 31, 2017. We record interest and penalties on any income tax liability as income tax expense. We recorded nominal interest and penalties in 2017, 2016 and 2015. During the next 12 months, we do not expect any material changes to our uncertain tax positions other than the accrual of interest in the normal course of business.

(10) Net Loss Per Share

The following table summarizes the computation of basic and diluted net loss per share of our common stock for 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands, except share and per share data)		
Numerator:			
Net loss	$ (45,470)	$ (49,000)	$ (49,857)
Accretion of preferred stock to redemption value	—	—	(35,061)
Beneficial conversion charge relating to IPO participation payment	—	—	(14,161)
Net loss attributable to common stockholders, basic and diluted	$ (45,470)	$ (49,000)	$ (99,079)
Denominator:			
Weighted-average common shares outstanding, basic and diluted	42,952,950	41,248,473	24,740,480
Net loss per share attributable to common stockholders, basic and diluted	$ (1.06)	$ (1.19)	$ (4.00)

The following potentially dilutive securities outstanding, prior to the use of the treasury stock method or if-converted method, have been excluded from the computation of diluted weighted-average shares outstanding for the respective periods below because they would have been anti-dilutive:

	Year Ended December 31,		
	2017	2016	2015
Options to purchase common stock	4,684,954	4,580,375	4,246,525
Unvested restricted stock	210,083	585,004	1,149,257
Unvested restricted stock units	1,988,509	734,577	—
Warrants to purchase common stock	—	—	100,000
Shares to be issued under ESPP	79,551	91,815	114,271
Total	6,963,097	5,991,771	5,610,053

(11) Commitments and Contingencies

(a) Leases

We have operating lease commitments for our facilities that expire at various dates through 2029. For operating leases that contain rent escalation or rent concession provisions, we record the total rent expense on a straight-line basis over the term of the lease. We record the difference between the rent paid and the straight-line rent as a deferred rent liability on the accompanying consolidated balance sheets. In addition to rental payments, certain leases require additional payments for real estate taxes, common area maintenance and insurance, which are expensed when incurred and not included in the future minimum payments table noted below.

Rent expense was $5.7 million, $5.0 million and $4.0 million for 2017, 2016 and 2015, respectively.

The approximate future minimum payments under non-cancellable operating leases as of December 31, 2017 are as follows:

2018	$ 7,677
2019	8,862
2020	9,906
2021	9,145
2022	9,211
Thereafter	60,866
Total	$ 105,667

(b) Purchase Obligations

As of December 31, 2017, we have non-cancellable firm purchase commitments relating to software and services that will be payable in the amounts of $15.9 million and$16.0 million for 2018, and 2019, respectively.

(c) Letters of Credit

As of December 31, 2017, we had a total of $7.7 million in letters of credit outstanding as collateral for certain office space leases and a corporate credit card program. These irrevocable letters of credit, which are not included in the table of contractual obligations above, are unsecured and are expected to remain in effect, in some cases, until 2029.

(d) Warranty

We provide limited product warranties. Historically, any payments made under these provisions have been immaterial.

(e) Litigation and Claims

From time to time, we may be a party to litigation or subject to claims incident to the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

(f) Indemnification Obligations

We agree to standard indemnification provisions in the ordinary course of business. Pursuant to these provisions, we agree to indemnify, hold harmless and reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally our customers, in connection with any United States patent, copyright or other intellectual property infringement claim by any third party arising from the use of our products or services in accordance with the agreement or arising from our gross negligence, willful misconduct or violation of the law (provided that there is not gross or willful misconduct on the part of the other party) with respect to our products or services. The term of these indemnification provisions is generally perpetual from the time of execution of the agreement. We carry insurance that covers certain third-party claims relating to our services and limits our exposure. We have never incurred costs to defend lawsuits or settle claims related to these indemnification provisions.

(g) Contingent Grant from Northern Ireland

In 2016, we received a $0.6 million grant from Invest Northern Ireland to create and maintain a certain number of jobs in Northern Ireland over a certain period of time. The grant proceeds were recorded as a reduction to operating expense, as we determined there is reasonable assurance that we will meet the compliance criteria related to the grant. If we fail to meet the compliance criteria, then a pro rata portion of the grant proceeds would be required to be returned.

(12) Employee Benefit Plan

In December 2008, we established a discretionary 401(k) plan in which all full-time U.S. employees above the age 18 are eligible to participate after they have been employed for us for 90 days following the applicable date of hire. Matching contributions to the 401(k) plan can be made at our discretion. In 2017, we made discretionary contributions of $1.4 million to the plan. We did not make any contributions to the 401(k) plan in 2016 or 2015.

(13) Segment Information and Information about Geographic Areas

We operate in one segment. Our chief operating decision maker is our Chief Executive Officer, who makes operating decisions, assesses performance and allocates resources on a consolidated basis.

Net revenues by geographic area presented based upon the location of the customer are as follows:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
North America	$ 170,667	$ 134,988	$ 96,416
Other	30,273	22,449	14,110
Total	$ 200,940	$ 157,437	$ 110,526

Of the total net revenues generated in North America, 93% , 95% and 96% was generated in the United States in 2017, 2016, and 2015, respectively.

Property and equipment, net by geographic area as of December 31, 2017 and 2016 is presented in the table below:

	As of December 31,	
	2017	2016
	(in thousands)	
United States	$ 7,182	$ 7,063
Other	1,407	1,025
Total	$ 8,589	$ 8,088

(14) Related Party Transactions

In October 2015, Intel Security announced the end-of-sale for the McAfee Vulnerability Manager to customers and partners, effective January 11, 2016, with end-of-life to follow, and announced that we were named their exclusive vulnerability management partner. Under the terms of the commercial agreement, we incur partner referral fees as customers transition from McAfee Vulnerability Manager to Nexpose. During the year ended December 31, 2017, we recognized sales and marketing expense of $2.7 million related to partner referral fees paid to Intel Security. On February 6, 2017, Michael Berry, a member of our board of directors, became the chief financial officer of Intel Security (McAfee).

In July 2015, entities affiliated with Technology Crossover Ventures purchased $5.0 million of our common stock (312,500 shares) in a private placement concurrent with the completion of our IPO at a price per share equal to the IPO price of $16.00 per share. Entities affiliated with Technology Crossover Ventures are holders of more than 5% of our capital stock and Timothy McAdam, a member of our board of directors, is affiliated with such entities.

(15) Subsequent Event

On January 30, 2018, we closed on a public offering of 5,950,000 shares of our common stock, of which 1,500,000 shares of common stock were sold by us and 4,450,000 shares of common stock were sold by certain existing stockholders, at an offering price of $22.00 per share, including 770,000 shares pursuant to the underwriters' option to purchase additional shares from the selling stockholders. Our net proceeds from the offering were $30.9 million, after deducting underwriting discounts and commissions and offering expenses payable by us. We did not receive any of the proceeds from the sale of shares by the selling stockholders.

Supplementary Data

The following table sets forth our unaudited quarterly consolidated statements of operations data for each of the eight quarters. We have prepared the quarterly financial data on the same basis as the audited consolidated financial statements included in this Annual Report on Form 10-K. In our opinion, the quarterly financial data reflects all adjustments, consisting only of normal recurring adjustment that we consider necessary for a fair presentation of this data. This quarterly financial data should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results to be expected in the future.

	Three Months Ended							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
	(in thousands) (unaudited)							
Consolidated Statements of Operations Data:								
Revenue:								
Products	$ 34,012	$ 29,626	$ 27,168	$ 25,942	$ 24,695	$ 23,108	$ 21,456	$ 20,145
Maintenance and support	12,474	11,654	11,338	10,802	10,366	9,694	8,962	8,381
Professional services	11,245	9,241	8,937	8,501	9,973	7,537	6,850	6,270
Total revenue	57,731	50,521	47,443	45,245	45,034	40,339	37,268	34,796
Cost of revenue:								
Products	8,428	6,888	5,557	4,710	3,747	3,415	2,687	2,598
Maintenance and support	2,024	1,739	1,850	1,878	1,865	1,801	1,758	1,681
Professional services	6,748	5,740	5,672	5,676	6,070	4,822	4,848	4,433
Total cost of revenue	17,200	14,367	13,079	12,264	11,682	10,038	9,293	8,712
Operating expenses:								
Research and development	14,102	13,570	11,873	11,393	11,065	11,616	12,932	12,342
Sales and marketing	31,427	28,224	27,132	24,810	24,792	21,284	21,680	22,768
General and administrative	8,387	7,402	7,256	7,248	7,440	7,605	6,644	6,593
Total operating expense	53,916	49,196	46,261	43,451	43,297	40,505	41,256	41,703
Loss from operations	(13,385)	(13,042)	(11,897)	(10,470)	(9,945)	(10,204)	(13,281)	(15,619)
Interest income (expense), net	190	198	218	169	76	44	26	(15)
Other income (expense), net	(36)	235	229	(115)	(293)	36	(48)	196
Loss before income taxes	(13,231)	(12,609)	(11,450)	(10,416)	(10,162)	(10,124)	(13,303)	(15,438)
Provision for (benefit from) income taxes	(227)	(2,325)	187	129	(388)	70	149	142
Net loss	$ (13,004)	$ (10,284)	$ (11,637)	$ (10,545)	$ (9,774)	$ (10,194)	$ (13,452)	$ (15,580)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended, means controls and other procedures of a company 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 the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2017, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2017 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on this assessment, management concluded that as of December 31, 2017, our internal control over financial reporting was effective.

This Annual Report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting as required by Section 404(c) of Sarbanes Oxley Act of 2002. For as long as we remain an "emerging growth company" as defined in the JOBS Act, we are exempt from the requirement that our registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting.

Inherent Limitations of Internal Controls

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls 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. 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, within the company 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 control. 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 the 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.

Changes in Internal Control over Financial Reporting

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

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this item is incorporated by reference to our Proxy Statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2017.

As part of our system of corporate governance, our board of directors has adopted a code of business conduct and ethics. The code applies to all of our employees, officers (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), agents and representatives, including our independent directors and consultants, who are not employees of ours, with regard to their Company-related activities. Our code of business conduct and ethics is available on our website at www.rapid7.com. We intend to post on this section of our website any amendment to our code of business conduct and ethics, as well as any waivers of our code of business conduct and ethics, that are required to be disclosed by the rules of the SEC or the Nasdaq Stock Market.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to our Proxy Statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2017.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to our Proxy Statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2017.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this item is incorporated by reference to our Proxy Statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2017.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to our Proxy Statement for our 2018 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of the year ended December 31, 2017.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements

See Index to Consolidated Financial Statements on page 59 of this Annual Report on Form 10-K, which is incorporated into this item by reference.

(a)(2) Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(b) Exhibits

The following list of exhibits includes exhibits submitted with this Annual Report on Form 10-K as filed with the SEC and others incorporated by reference to other filings.

Exhibit Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of Rapid7, Inc.
3.2(2)	Amended and Restated Bylaws of Rapid7, Inc.
4.1(3)	Form of common stock certificate of Rapid7, Inc.
4.2(4)	Amended and Restated Investors’ Rights Agreement by and among Rapid7, Inc. and certain of its stockholders, dated December 9, 2014.
4.3(5)	Amendment No. 1 to Investors’ Rights Agreement, dated October 13, 2015.
10.1+(6)	2011 Stock Option and Grant Plan and Forms of Stock Option Agreement, Stock Option Exercise Notice and Restricted Stock Agreement thereunder.
10.2+(7)	Rapid7, Inc. 2015 Equity Incentive Plan, as amended.
10.3+(8)	Forms of Stock Option Agreement, Notice of Exercise, Stock Option Grant Notice and Restricted Stock Unit Agreement under the Rapid7, Inc. 2015 Equity Incentive Plan, as amended.
10.4+(9)	Rapid7, Inc. 2015 Employee Stock Purchase Plan.
10.5+(10)	Form of Indemnification Agreement by and between Rapid7, Inc. and each of its directors and executive officers.
10.6(11)	Office Lease Agreement, dated as of November 11, 2013, by and between Rapid7, Inc. and MA-100 Summer Street Owner, L.L.C.
10.7(12)	First Amendment to Office Lease Agreement, dated as of April 10, 2015 by and between Rapid7, Inc. and MA-100 Summer Street Owner, L.L.C.
10.8(13)	Second Amendment to Office Lease Agreement, dated as of August 17, 2015, by and between Rapid7, Inc. and MA-100 Summer Street Owner, L.L.C.
10.9(14)	Third Amendment to Office Lease Agreement, dated as of March 23, 2016, by and between Rapid7, Inc. and MA-100 Summer Street Owner, L.L.C.
10.10(15)	Fourth Amendment to Office Lease Agreement, dated as of February 14, 2017, by and between Rapid7, Inc. and MA-100 Summer Street Owner, L.L.C.
10.11(16)	Lease dated November 16, 2017 between Podium Developer LLC and Rapid7, Inc.
10.12+(17)	Rapid7, Inc. Executive Incentive Bonus Plan.
10.13+(18)	Employment Agreement, dated as of January 3, 2013, by and between Rapid7, Inc. and Corey Thomas.
10.14+(19)	Amendment to Employment Agreement, dated as of April 4, 2016, by and between Rapid7, Inc. and Corey Thomas.
10.15+(20)	Second Amendment to Employment Agreement, dated as of March 24, 2017, by and between Rapid7, Inc. and Corey Thomas.
10.16+(21)	Employment Agreement, dated as of November 28, 2016, by and between Rapid7, Inc. and Jeffrey Kalowski.
10.17+(22)	Offer Letter Agreement, dated as of October 3, 2016, by and between Rapid7, Inc. and Andrew Burton.
10.18+(23)	Severance and Equity Award Vesting Acceleration Letter, dated as of March 28, 2017, by and between Rapid7, Inc. and Andrew Burton.
10.19+*	Form of Severance and Equity Award Vesting Acceleration Letter.

Exhibit Number	Description
21.1*	List of subsidiaries of Rapid7, Inc.
23.1*	Consent of KPMG, LLP.
24.1	Power of Attorney (incorporated by reference to the signature pages of this Annual Report on Form 10-K).
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.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

(1) Previously filed as Exhibit 3.1 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on July 22, 2015, and incorporated herein by reference.
(2) Previously filed as Exhibit 3.2 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on July 22, 2015, and incorporated herein by reference.
(3) Previously filed as Exhibit 4.1 to the Registrant’s Registration Statement on Form S-1/A (File No. 333-204874), filed with the Securities and Exchange Commission on July 6, 2015, and incorporated herein by reference.
(4) Previously filed as Exhibit 4.2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-204874), filed with the Securities and Exchange Commission on June 11, 2015, and incorporated herein by reference.
(5) Previously filed as Exhibit 4.1 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on October 13, 2015, and incorporated herein by reference.
(6) Previously filed as Exhibit 10.2 to the Registrant’s Registration Statement on Form S-1 (File No. 333-204874), filed with the Securities and Exchange Commission on June 11, 2015, and incorporated herein by reference.
(7) Previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on October 13, 2015, and incorporated herein by reference.
(8) Previously filed as Exhibit 10.3 to the Registrant’s Registration Statement on Form S-1/A (File No. 333-204874), filed with the Securities and Exchange Commission on July 6, 2015, and incorporated herein by reference.
(9) Previously filed as Exhibit 10.4 to the Registrant’s Registration Statement on Form S-1/A (File No. 333-204874), filed with the Securities and Exchange Commission on July 6, 2015, and incorporated herein by reference.
(10) Previously filed as Exhibit 10.5 to the Registrant’s Annual Report on Form 10-K (File No. 001-37496), filed with the Securities and Exchange Commission on March 10, 2016, and incorporated herein by reference.
(11) Previously filed as Exhibit 10.1 to the Registrant’s Registration Statement on Form S-1 (File No. 333-204874), filed with the Securities and Exchange Commission on June 11, 2015, and incorporated herein by reference.
(12) Previously filed as Exhibit 10.1 to the Registrant’s Registration Statement on Form S-1 (File No. 333-204874), filed with the Securities and Exchange Commission on June 11, 2015, and incorporated herein by reference.
(13) Previously filed as Exhibit 10.3 to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on August 19, 2015.
(14) Previously filed as Exhibit 10.1 to the Registrant’s Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on May 12, 2016, and incorporated herein by reference.
(15) Previously filed as Exhibit 10.23 to the Registrant’s Annual Report on Form 10-K (File No. 001-37496), filed with the Securities and Exchange Commission on March 9, 2017, and incorporated herein by reference.
(16) Previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on November 16, 2017, and incorporated herein by reference.
(17) Previously filed as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on February 2, 2017, and incorporated herein by reference.

(18) Previously filed as Exhibit 10.9 to the Registrant's Registration Statement on Form S-1(File No. 333-204874), filed with the Securities and Exchange Commission on June 11, 2015, and incorporated herein by reference.
(19) Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on April 5, 2016, and incorporated herein by reference.
(20) Previously filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on May 10, 2017, and incorporated herein by reference.
(21) Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on November 28, 2016, and incorporated herein by reference.
(22) Previously filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-37496), filed with the Securities and Exchange Commission on October 4, 2016, and incorporated herein by reference.
(23) Previously filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on May 10, 2017, and incorporated herein by reference.

* Filed herewith.

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

\+ Indicates management contract or compensatory plan.

Item 16. Form 10-K Summary.

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized**.**

RAPID7, INC.

Date: March 8, 2018	By:	/s/ Corey E. Thomas
		Name: Corey E. Thomas
		Title: President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Corey E. Thomas and Jeff Kalowski, and each of them, as his true and lawful attorneys-in-fact and agents, each with the full power of substitution, for him and in his name, place or stead, in any and all capacities, to sign any and all amendments to this report, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their, his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Corey E. Thomas **Corey E. Thomas**	President, Chief Executive Officer and Director (*Principal Executive Officer*)	March 8, 2018
/s/ Jeff Kalowski **Jeff Kalowski**	Chief Financial Officer (*Principal Financial Officer and Principal Accounting Officer*)	March 8, 2018
/s/ Michael Berry **Michael Berry**	Director	March 8, 2018
/s/ Marc Brown **Mark Brown**	Director	March 8, 2018
/s/ Judy Bruner **Judy Bruner**	Director	March 8, 2018
/s/ Benjamin Holzman **Benjamin Holzman**	Director	March 8, 2018
/s/ Timothy McAdam **Timothy McAdam**	Director	March 8, 2018
/s/ Alan Matthews **Alan Matthews**	Director	March 8, 2018
/s/ J. Benjamin Nye **J. Benjamin Nye**	Director	March 8, 2018
/s/ Thomas Schodorf **Thomas Schodorf**	Director	March 8, 2018

Exhibit 10.19

RAPID7, INC.

_______________, 20__

Re: Severance and Equity Award Vesting Acceleration

Dear ______________________:

We are pleased to inform you that the Compensation Committee of the Board of Directors of Rapid7, Inc. (the "***Company***") has approved severance and vesting acceleration terms for you, which are described in this letter agreement (the "***Agreement***"). This Agreement shall supersede and replace the Severance and Equity Award Vesting Acceleration Letter Agreement dated as of _______, by and between you and the Company.

The vesting acceleration described in Section 2, below shall apply to each of your outstanding compensatory equity awards granted to you prior to the date hereof under the Company's 2011 Stock Option and Grant Plan, as amended (the "***2011 Plan***") or the Company's 2015 Equity Incentive Plan, as amended (the "***2015 Plan***" and together with the 2011 Plan, the "***Plans***") that are subject to a time-based vesting schedule to the extent such awards were granted to you while you were an Eligible Employee (as defined below) (the "***Equity Awards***"). Capitalized terms used in this Agreement and not defined herein shall have the meanings set forth in the applicable Plan. This Agreement amends the terms of the Equity Awards that have previously been granted to you and are currently outstanding. Further, unless otherwise expressly provided by the Company at the time of grant, any future compensatory equity awards covering Company common stock, including awards of stock options, restricted stock, restricted stock units or other types of equity awards, as applicable, that the Company may grant to you in the future and that are subject to a time-based vesting schedule shall also be deemed to be "***Equity Awards***" for purposes of this Agreement to the extent such award(s) are granted to you while you are an Eligible Employee. For purposes of clarity, any compensatory equity awards that are subject to performance-based vesting shall not be deemed to be "***Equity Awards***" hereunder and shall only vest, if at all, in accordance with the terms of the applicable Plan and award agreement.

1. Severance. If you experience a Qualifying Termination (as defined below) while you are an Eligible Employee (and disregarding for this purpose, any reduction in your job duties, authorities or responsibilities that results in a termination of your employment for Good Reason), then, provided you timely comply with the conditions described in Section 3:

(a) the Company will pay you an amount equal to your then current base salary (disregarding for this purpose, any reduction of your base salary that results in a termination of your employment for Good Reason) for the applicable Severance Period, payable in substantially equal installments in accordance with the Company's regular payroll practice over such period, commencing within 60 days after the date of your Qualifying Termination; provided, however, that if the 60-day period begins in one calendar year and ends in a second calendar year, such payments shall begin to be paid in the second calendar year and the initial payment shall include a catch-up payment to cover amounts retroactive to the day immediately following the date of your Qualifying Termination;

(b) if you timely elect to continue coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("***COBRA***"), the Company shall pay your COBRA premiums, and any applicable Company COBRA premiums, necessary to continue your then-current coverage until the earliest of (A) the end of the applicable Severance Period, (B) the expiration of your eligibility for the continuation coverage under COBRA and (C) the date you become eligible to enroll in a health insurance plan offered by another employer or entity. You agree to immediately notify the Company in writing of any such enrollment or eligibility for enrollment and the Company's obligation to pay any COBRA premiums shall immediately cease. Notwithstanding the foregoing, if the Company determines, in its sole discretion, that it cannot provide the foregoing benefit without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), the Company shall in lieu thereof provide you with a taxable monthly amount (which amount shall be based on the premium for the first month of COBRA coverage hereunder), which payments shall be made regardless of whether you elect COBRA continuation coverage. If the Company elects to make such payments in lieu of paying such COBRA premiums, the payments will end on the earlier of (x) the date on which you voluntarily enroll in a health insurance plan offered by another employer or (y) the end of the Severance Period; and

(c) [if such Qualifying Termination occurs during the Change in Control Period, then the Company shall pay you a lump-sum amount equal to your target annual cash performance bonus for the year of termination, pro-rated based on the number of days from the beginning of the calendar year through the date of such Qualifying Termination, payable on the first regular payroll date of the Company that is 60 days following the date of such termination (or, if later, the date of such Change in Control);]

2. Equity Award Vesting Acceleration.

(a) If, in connection with a Change in Control, (x) an Equity Award is assumed or continued by the successor or acquiror entity in such Change in Control or such Equity Award is substituted for a similar award of the successor or acquiror entity, and (y) you experience a Qualifying Termination within the Change in Control Period, then, provided you timely comply with the conditions described in Section 3 below, you will become vested, effective as of the date that is 60 days following the date of such Qualifying Termination (or, if later, the effective date of such Change in Control) with respect to [__] percent any then unvested portion of any applicable Equity Award.

(b) If, in connection with a Change in Control, an Equity Award shall terminate and will not be so assumed or continued by the successor or acquiror entity in such Change in Control or substituted for a similar award of the successor or acquiror entity, then, you will become vested, with respect to [__] percent of any then unvested portion of any applicable Equity Award, effective immediately prior to, but subject to the consummation of such Change in Control.

3. Conditions to Receipt of Severance and Equity Award Vesting Acceleration. In order to receive the severance and Equity Award vesting acceleration described in Sections 1 and 2(a), above, you must sign a separation agreement containing, among other provisions, a general release of claims in favor of the Company and related persons and entities, confidentiality, return of property and non-disparagement, in a form and manner satisfactory to the Company (the "***Separation Agreement and Release***") and the Separation Agreement and Release must become irrevocable, all within 60 days after your Qualifying Termination. In order to effect the provisions of this Section 3, any termination or forfeiture of any unvested Equity Awards eligible for acceleration of vesting pursuant to Section 2(a) above that otherwise would have occurred on or within 60 days after your Qualifying Termination will be delayed until the 60th day after the date of your Qualifying Termination (but, in the case of any stock option, not later than the expiration date of such stock option specified in the applicable option agreement) and will only occur to the extent such equity awards do not vest pursuant to Section 2(a) above and, for purposes of clarity, no additional vesting of any Equity Award shall occur during such 60 day period.

4. Certain Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(a) "***Cause***" will have the meaning ascribed to such term in the 2015 Plan.

(b) "***Change in Control Period***" means the period commencing three months prior to, and ending 12 months following, a Change in Control.

(c) "***Eligible Employee***" means an employee of the Company having the title of Senior Vice President or higher.

(d) "***Good Reason***" shall mean the occurrence any of the following, in each case without your written consent provided that you must (i) give written notice to the Company's Chief Executive Officer within 30 days after the first occurrence of the first event giving rise to Good Reason setting forth the basis for your resignation (which shall be specified in reasonable detail), (ii) allow the Company at least 30 days from receipt of such written notice to cure such event, and (iii) if such event is not reasonably cured within such period, you must resign from all positions you then hold with the Company and its affiliates, effective not later than 90 days after the expiration of the cure period: (A) a material decrease in your then current base salary, except for across-the-board reductions similarly affecting all or substantially all similarly situated employees of the Company, (B) a material reduction in your job duties, authorities or responsibilities, provided, however, that a change in job position (including a change in title) shall not be deemed a "material reduction" in and of itself unless your new duties are materially reduced from your prior duties, (C) a relocation of your regular place of work to any location that increases your one-way commute by more than 50 miles of your then-current principal place of employment immediately prior to such relocation, or (D) a material breach by the Company of its obligations under this Agreement or other agreement between you and the Company. Your right to terminate your employment as a result of Good Reason shall not be affected by your incapacity due to physical or mental illness. Subject to the notice requirements above, your continued employment from the date Good Reason first exists and the date upon which you terminate your employment with the Company shall not constitute consent to, or a waiver of rights with respect to, any circumstance constituting Good Reason hereunder.

(e) "***Qualifying Termination***" means a termination of your Continuous Service (as defined in the 2015 Plan) either (x) by the Company without Cause or (y) by you with Good Reason. Termination of Continuous Service due to your death or Disability (as defined in the 2015 Plan) will not constitute a Qualifying Termination.

(f) "***Severance Period***" means [___] months[, provided that the Severance Period shall instead be 12 months to the extent that a Qualifying Termination occurs during the Change in Control period].

5. Section 409A. The payments and benefits under this Agreement are intended to qualify for an exemption from application of Section 409A of the Code ("***Section 409A***") or comply with its requirements to the extent necessary to avoid adverse personal tax consequences under Section 409A, and any ambiguities herein shall be interpreted accordingly. To the extent that any payment or benefit described in this Agreement constitutes "non-qualified deferred compensation" under Section 409A, and to the extent that such payment or benefit is payable upon the termination of your employment, then such payments or benefits will be payable only upon your "separation from service." The determination of whether and when a separation from service has occurred will be made in accordance with the presumptions set forth in Treasury Regulation Section 1.409A-1(h). Anything in this Agreement to the contrary notwithstanding, if at the time of your separation from service, the Company determines that you are a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code, then to the extent any payment or benefit that you become entitled to under this Agreement on account of your separation from service would be considered deferred compensation subject to the 20 percent additional tax imposed pursuant to Section 409A(a) of the Code as a result of the application of Section 409A(a)(2)(B)(i) of the Code, such payment will not be payable and such benefit will not be provided until the date that is the earlier of (A) six months and one day after your separation from service, (B) your death, or (C) such earlier date as permitted under Section 409A without imposition of adverse taxation. If any such delayed cash payment is otherwise payable on an installment basis, the first payment will include a catch-up payment covering amounts that would otherwise have been paid during the six-month period but for the application of this provision, and the balance of the installments will be payable in accordance with their original schedule. The Company makes no representation or warranty and will have no liability to you or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A but do not satisfy an exemption from, or the conditions of, Section 409A.

6. Parachute Payments. If any payment or benefit you would receive from the Company or otherwise in connection with a Change in Control or other similar transaction (a "***280G Payment***") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "***Excise Tax***"), then any such 280G Payment (a "***Payment***") shall be equal to the Reduced Amount. The "***Reduced Amount***" shall be either (x) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount (i.e., the amount determined by clause (x) or by clause (y)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in your receipt, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced

Amount is determined pursuant to clause (x) of the preceding sentence, the reduction shall occur in the manner (the "***Reduction Method***") that results in the greatest economic benefit for you. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the "***Pro Rata Reduction Method***").

Notwithstanding the foregoing, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A of the Code that would not otherwise be subject to taxes pursuant to Section 409A of the Code, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, shall be modified so as to avoid the imposition of taxes pursuant to Section 409A of the Code as follows: (A) as a first priority, the modification shall preserve to the greatest extent possible, the greatest economic benefit for you as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (e.g., being terminated without cause), shall be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are "deferred compensation" within the meaning of Section 409A of the Code shall be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A of the Code.

Unless you and the Company agree on an alternative accounting firm, the accounting firm engaged by the Company for general tax compliance purposes as of the day prior to the effective date of the change of control transaction triggering the Payment shall perform the foregoing calculations. If the accounting firm so engaged by the Company is serving as accountant or auditor for the individual, entity or group effecting the change of control transaction, the Company shall appoint a nationally recognized accounting firm to make the determinations required hereunder. The Company shall bear all expenses with respect to the determinations by such accounting firm required to be made hereunder. The Company shall use commercially reasonable efforts to cause the accounting firm engaged to make the determinations hereunder to provide its calculations, together with detailed supporting documentation, to you and the Company within 15 calendar days after the date on which your right to a 280G Payment becomes reasonably likely to occur (if requested at that time by you or the Company) or such other time as requested by you or the Company.

If you receive a Payment for which the Reduced Amount was determined pursuant to clause (x) of the first paragraph of this Section and the Internal Revenue Service determines thereafter that some portion of the Payment is subject to the Excise Tax, you shall promptly return to the Company a sufficient amount of the Payment (after reduction pursuant to clause (x) of the first paragraph of this Section so that no portion of the remaining Payment is subject to the Excise Tax. For the avoidance of doubt, if the Reduced Amount was determined pursuant to clause (y) in the first paragraph of this Section, you shall have no obligation to return any portion of the Payment pursuant to the preceding sentence.

7. Miscellaneous. This Agreement set forth the entire understanding between you and the Company with respect to the subject matter hereto and supersedes all prior oral and written agreements, promises and/or representations on that subject. This Agreement is not an agreement of employment and shall not confer upon you any right to be retained by or in the employ of the Company and shall not interfere in any way with the right of the Company to terminate your employment or service arrangement at any time or for any reason. This Agreement will be binding upon any surviving entity resulting from a Change in Control of the Company and upon any other person who is a successor by merger, acquisition, consolidation or otherwise to the business formerly carried on by the Company without regard to whether or not such person or entity actively assumes the obligations hereunder. The terms of this Agreement, and any action arising hereunder, shall be governed by and construed in accordance with the domestic laws of the Commonwealth of Massachusetts giving effect to any choice of law or conflict of law provision or rule (whether of the Commonwealth of Massachusetts or other jurisdiction) that would cause the application of the laws of any jurisdiction other than the Commonwealth of Massachusetts and you hereby expressly consent to the personal jurisdiction and venue of the state and federal courts located in the Commonwealth of Massachusetts for any lawsuit filed there against me by Company arising from or related to this Agreement.

* * *

Except as provided herein, all terms and conditions of your Equity Awards and any other written agreement between you and the Company remain in full force and effect and are not amended by this Agreement.

Please countersign below to acknowledge your receipt of this Agreement and your agreement to the terms described herein.

With best regards,

__

Corey Thomas
CEO

Acknowledged and agreed:

__
Name:
Date:__

Exhibit 21.1

List of Subsidiaries of Rapid7, Inc.

Company Name	**Jurisdiction**
Komand Inc.	Delaware
Rapid7 Australia Pty Ltd.	Australia
Rapid7 Canada, Inc.	Canada
Rapid7 Germany GmbH	Germany
Rapid7 International Group Limited	United Kingdom
Rapid7 International Holdings Limited	United Kingdom
Rapid7 International Limited	United Kingdom
Rapid7 Ireland Limited	Ireland
Rapid7 Japan KK	Japan
Rapid7 LLC	Delaware
Rapid7 Netherlands B.V.	Netherlands
Rapid7 Singapore Pte. Ltd.	Singapore

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Rapid7, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-205716, 333-207395, 333-210082 and 333-216566) on Form S-8 and the registration statement (No. 333-218189) on Form S-3 of Rapid7, Inc. of our report dated March 8, 2018, with respect to the consolidated balance sheets of Rapid7, Inc. and subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, changes in redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements") which report appears in the December 31, 2017 annual report on Form 10-K of Rapid7, Inc.

/s/ KPMG LLP

Boston, Massachusetts
March 8, 2018

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Corey E. Thomas, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rapid7, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 8, 2018	By:	/s/ Corey E. Thomas
		Name: Corey E. Thomas
		Title: President and Chief Executive Officer (*Principal Executive Officer*)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeff Kalowski, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rapid7, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 8, 2018	By:	/s/ Jeff Kalowski
		Name: Jeff Kalowski
		Title: Chief Financial Officer (*Principal Financial Officer and Principal 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

I, Corey E. Thomas, Chief Executive Officer of Rapid7, Inc., do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge, the Annual Report on Form 10-K of Rapid7, Inc. for the year ended December 31, 2017 (the “Report”):

(1) 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 results of operations of Rapid7, Inc.

Date: March 8, 2018	By:	/s/ Corey E. Thomas
		Name: Corey E. Thomas
		Title: President and 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

I, Jeff Kalowski, Chief Financial Officer of Rapid7, Inc., do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge, the Annual Report on Form 10-K of Rapid7, Inc. for the year ended December 31, 2017 (the "Report"):

(1) 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 results of operations of Rapid7, Inc.

Date: March 8, 2018	By:	/s/ Jeff Kalowski
		Name: Jeff Kalowski
		Title: Chief Financial Officer (*Principal Financial Officer and Principal Accounting Officer*)