UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2021

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 **(State or other jurisdiction of incorporation or organization)**	**35-2423994** **(I.R.S. Employer Identification No.)**
120 Causeway Street **Boston, MA** **(Address of principal executive offices)**	**02114** **(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	RPD	The Nasdaq Global Market

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

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

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	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 new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of July 31, 2021, there were 55,783,467 shares of the registrant's common stock, $0.01 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

RAPID7, INC.
Consolidated Balance Sheets (Unaudited)
(in thousands, except share and per share data)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 493,568	$ 173,617
Short-term investments	114,284	138,839
Accounts receivable, net of allowance for doubtful accounts of $2,549 and $3,251 at June 30, 2021 and December 31, 2020, respectively	98,483	111,599
Deferred contract acquisition and fulfillment costs, current portion	23,960	21,536
Prepaid expenses and other current assets	27,555	27,844
Total current assets	757,850	473,435
Long-term investments	5,377	10,124
Property and equipment, net	49,431	53,114
Operating lease right-of-use assets	63,472	67,178
Deferred contract acquisition and fulfillment costs, non-current portion	46,132	43,103
Goodwill	254,418	213,601
Intangible assets, net	54,179	44,296
Other assets	9,450	8,271
Total assets	$ 1,240,309	$ 913,122
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 2,063	$ 3,860
Accrued expenses	55,633	61,677
Operating lease liabilities, current portion	9,285	9,612
Deferred revenue, current portion	302,186	278,585
Convertible senior notes, current portion, net	44,730	—
Other current liabilities	303	—
Total current liabilities	414,200	353,734
Convertible senior notes, non-current portion, net	810,093	378,586
Operating lease liabilities, non-current portion	71,691	75,737
Deferred revenue, non-current portion	30,124	31,365
Other long-term liabilities	9,596	2,164
Total liabilities	1,335,704	841,586
Stockholders' equity (deficit):		
Preferred stock, $0.01 par value per share; 10,000,000 shares authorized at June 30, 2021 and December 31, 2020; 0 shares issued at June 30, 2021 and December 31, 2020	—	—
Common stock, $0.01 par value per share; 100,000,000 shares authorized at June 30, 2021 and December 31, 2020; 56,235,219 and 52,712,084 shares issued at June 30, 2021 and December 31, 2020, respectively; 55,748,411 and 52,225,276 shares outstanding at June 30, 2021 and December 31, 2020, respectively	557	522
Treasury stock, at cost, 486,808 shares at June 30, 2021 and December 31, 2020	(4,764)	(4,764)
Additional paid-in-capital	562,652	692,603
Accumulated other comprehensive (loss) income	(137)	454
Accumulated deficit	(653,703)	(617,279)
Total stockholders' equity (deficit)	(95,395)	71,536
Total liabilities and stockholders' equity (deficit)	$ 1,240,309	$ 913,122

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

RAPID7, INC.
Consolidated Statements of Operations (Unaudited)
(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue:				
Products	$ 119,147	$ 92,430	$ 228,432	$ 179,979
Professional services	7,274	6,482	15,440	13,273
Total revenue	126,421	98,912	243,872	193,252
Cost of revenue:				
Products	33,169	23,118	62,819	44,373
Professional services	6,139	5,963	12,778	12,422
Total cost of revenue	39,308	29,081	75,597	56,795
Total gross profit	87,113	69,831	168,275	136,457
Operating expenses:				
Research and development	35,305	26,120	68,385	50,322
Sales and marketing	56,246	44,959	111,224	93,104
General and administrative	17,488	14,484	33,708	28,583
Total operating expenses	109,039	85,563	213,317	172,009
Loss from operations	(21,926)	(15,732)	(45,042)	(35,552)
Other income (expense), net:				
Interest income	122	208	218	1,256
Interest expense	(3,059)	(5,917)	(8,453)	(9,379)
Other income (expense), net	148	210	(919)	(237)
Loss before income taxes	(24,715)	(21,231)	(54,196)	(43,912)
Provision for income taxes	9,449	235	9,813	478
Net loss	$ (34,164)	$ (21,466)	$ (64,009)	$ (44,390)
Net loss per share, basic and diluted	$ (0.62)	$ (0.42)	$ (1.18)	$ (0.88)
Weighted-average common shares outstanding, basic and diluted	55,392,383	50,695,706	54,169,464	50,411,508

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

RAPID7, INC.
Consolidated Statements of Comprehensive Loss (Unaudited)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net loss	$ (34,164)	$ (21,466)	$ (64,009)	$ (44,390)
Other comprehensive income (loss):				
Change in fair value of investments	(3)	128	(12)	(107)
Adjustments for net losses (gains) realized and included in net loss	—	35	—	(21)
Total change in unrealized (losses) gains on investments	(3)	163	(12)	(128)
Change in fair value of cash flow hedges	(72)	—	(201)	—
Adjustments for net gains realized and included in net loss	(174)	—	(378)	—
Total change in unrealized losses on cash flow hedges	(246)	—	(579)	—
Total other comprehensive (loss) income	(249)	163	(591)	(128)
Comprehensive loss	$ (34,413)	$ (21,303)	$ (64,600)	$ (44,518)

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

RAPID7, INC.
Consolidated Statements of Changes in Stockholders' Equity (Deficit) (Unaudited)
(in thousands)

	Common stock			Treasury stock								
	Shares	Amount		Shares	Amount		Additional paid-in-capital		Accumulated other comprehensive gain (loss)		Accumulated deficit		Total stockholders' (deficit)
Balance, March 31, 2021	55,091	$	551	487	$	(4,764)	$	542,415	$	112	$	(619,539)	$	(81,225)
Stock-based compensation expense	—		—	—		—		22,487		—		—		22,487
Vesting of restricted stock units	500		5	—		—		(5)		—		—		—
Shares withheld for employee taxes	(42)		(1)	—		—		(3,346)		—		—		(3,347)
Issuance of common stock upon exercise of stock options	109		1	—		—		1,102		—		—		1,103
Issuance of common stock in connection with conversion of convertible senior notes	23		—	—		—		—		—		—		—
Issuance of common stock related to acquisition	67		1	—		—		(1)		—		—		—
Other comprehensive loss	—		—	—		—		—		(249)		—		(249)
Net loss	—		—	—		—		—		—		(34,164)		(34,164)
Balance, June 30, 2021	55,748	$	557	487	$	(4,764)	$	562,652	$	(137)	$	(653,703)	$	(95,395)

	Common stock			Treasury stock										
	Shares		Amount	Shares		Amount		Additional paid-in-capital		Accumulated other comprehensive gain (loss)		Accumulated deficit		Total stockholders' equity
Balance, March 31, 2020	50,419	$	504	487	$	(4,764)	$	621,992	$	(78)	$	(541,354)	$	76,300
Stock-based compensation expense	—		—	—		—		15,864		—		—		15,864
Vesting of restricted stock units	415		4	—		—		(4)		—		—		—
Shares withheld for employee taxes	(42)		—	—		—		(1,917)		—		—		(1,917)
Issuance of common stock upon exercise of stock options	160		1	—		—		2,163		—		—		2,164
Other comprehensive gain	—		—	—		—		—		163		—		163
Equity component of convertible senior notes, net	—		—	—		—		46,835		—		—		46,835
Purchase of capped calls related to convertible senior notes	—		—	—		—		(27,255)		—		—		(27,255)
Net loss	—		—	—		—		—		—		(21,466)		(21,466)
Balance, June 30, 2020	50,952	$	509	487	$	(4,764)	$	657,678	$	85	$	(562,820)	$	90,688

	Common stock		Treasury stock		Additional paid-in-capital	Accumulated other comprehensive gain (loss)	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount				
Balance, December 31, 2020	52,225	$ 522	487	$ (4,764)	$ 692,603	$ 454	$ (617,279)	$ 71,536
Stock-based compensation expense	—	—	—	—	44,771	—	—	44,771
Issuance of common stock under employee stock purchase plan	148	1	—	—	4,466	—	—	4,467
Vesting of restricted stock units	874	9	—	—	(9)	—	—	—
Shares withheld for employee taxes	(80)	(1)	—	—	(6,670)	—	—	(6,671)
Issuance of common stock upon exercise of stock options	279	3	—	—	2,518	—	—	2,521
Purchase of capped calls related to convertible senior notes	—	—	—	—	(76,020)	—	—	(76,020)
Issuance of common stock in connection with repurchase and conversion of convertible senior notes	2,200	22	—	—	(2,720)	—	—	(2,698)
Issuance of common stock in connection with inducement of convertible senior notes	35	—	—	—	2,740	—	—	2,740
Issuance of common stock related to acquisition	67	1	—	—	(1)	—	—	—
Cumulative-effect adjustment for the adoption of ASU 2020-06	—	—	—	—	(99,026)		27,585	(71,441)
Other comprehensive loss	—	—	—	—	—	(591)	—	(591)
Net loss	—	—	—	—	—	—	(64,009)	(64,009)
Balance, June 30, 2021	55,748	$ 557	487	$ (4,764)	$ 562,652	$ (137)	$ (653,703)	$ (95,395)

	Common stock		Treasury stock		Additional paid-in-capital	Accumulated other comprehensive gain (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2019	49,911	$ 499	487	$ (4,764)	$ 605,650	$ 213	$ (518,430)	$ 83,168
Stock-based compensation expense	—	—	—	—	28,829	—	—	28,829
Issuance of common stock under employee stock purchase plan	102	1	—	—	3,345	—	—	3,346
Vesting of restricted stock units	723	7	—	—	(7)	—	—	—
Shares withheld for employee taxes	(69)	—	—	—	(3,450)	—	—	(3,450)
Issuance of common stock upon exercise of stock options	285	2	—	—	3,731	—	—	3,733
Other comprehensive loss	—	—	—	—	—	(128)	—	(128)
Equity component of convertible senior notes, net	—	—	—	—	46,835	—	—	46,835
Purchase of capped calls related to convertible senior notes	—	—	—	—	(27,255)	—	—	(27,255)
Net loss	—	—	—	—	—	—	(44,390)	(44,390)
Balance, June 30, 2020	50,952	$ 509	487	$ (4,764)	$ 657,678	$ 85	$ (562,820)	$ 90,688

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

RAPID7, INC.
Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash flows from operating activities:		
Net loss	$ (64,009)	$ (44,390)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	13,768	10,419
Amortization of debt discount and issuance costs	1,791	7,007
Stock-based compensation expense	44,676	29,793
Deferred income taxes	3,924	—
Induced conversion expense	2,740	—
Other	1,446	1,060
Changes in operating assets and liabilities:		
Accounts receivable	12,816	10,835
Deferred contract acquisition and fulfillment costs	(5,453)	(2,994)
Prepaid expenses and other assets	394	1,773
Accounts payable	(1,329)	137
Accrued expenses	(7,592)	(7,437)
Deferred revenue	22,220	(11,996)
Other liabilities	4,389	(980)
Net cash provided by (used in) operating activities	29,781	(6,773)
Cash flows from investing activities:		
Business acquisition, net of cash acquired	(52,420)	(125,771)
Purchases of property and equipment	(2,671)	(3,955)
Capitalization of internal-use software costs	(4,205)	(2,948)
Purchases of investments	(59,308)	(49,259)
Sales/maturities of investments	87,938	146,599
Other	(1,500)	—
Net cash used in investing activities	(32,166)	(35,334)
Cash flows from financing activities:		
Proceeds from issuance of convertible senior notes, net of issuance costs paid of $14,560 and $6,500 for the six months ended June 30, 2021 and 2020, respectively	585,440	223,500
Purchase of capped calls related to convertible senior notes	(76,020)	(27,255)
Payments of debt issuance costs	—	(248)
Payments for repurchase and conversion of convertible senior notes	(184,649)	—
Payments related to business acquisition	(2,431)	—
Taxes paid related to net share settlement of equity awards	(6,671)	(3,450)
Proceeds from employee stock purchase plan	4,467	3,346
Proceeds from stock option exercises	2,530	3,728
Net cash provided by financing activities	322,666	199,621
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(293)	(301)
Net increase in cash, cash equivalents and restricted cash	319,988	157,213
Cash, cash equivalents and restricted cash, beginning of period	173,617	123,413
Cash, cash equivalents and restricted cash, end of period	$ 493,605	$ 280,626
Supplemental cash flow information:		
Cash paid for interest on convertible senior notes	$ 4,025	$ 1,438
Cash paid for income taxes, net of refunds	$ 632	$ 135
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	$ 493,568	$ 279,343
Restricted cash included in prepaid expenses and other current assets	37	$ 1,283
Total cash, cash equivalents and restricted cash	$ 493,605	$ 280,626

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

RAPID7, INC.
Notes to Consolidated Financial Statements (Unaudited)

Note 1. Description of Business, Basis of Presentation and Consolidation and Significant Accounting Policies

Description of Business

Rapid7, Inc. and subsidiaries ("we," "us" or "our") is advancing security with visibility, analytics, and automation delivered through our Insight Platform. Our solutions simplify the complex, allowing security teams to work more effectively with IT and development to reduce vulnerabilities, monitor for malicious behavior, investigate and shut down attacks, and automate routine tasks.

Basis of Presentation and Consolidation

The accompanying unaudited consolidated financial statements have been prepared by us in accordance with accounting principles generally accepted in the United States of America (GAAP), as well as pursuant to the rules and regulations of the Securities and Exchange Commission (SEC), regarding interim financial reporting. Accordingly, certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 26, 2021.

The consolidated financial statements include our results of operations and those of our wholly-owned subsidiaries and reflect all adjustments (consisting solely of normal, recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim periods presented. All intercompany transactions and balances have been eliminated in consolidation. The results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of the results to be expected for any future period or the entire fiscal year.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The management estimates include, but are not limited to the determination of the estimated economic life of perpetual licenses for revenue recognition, the determination of standalone selling prices in revenue transactions with multiple performance obligations, the estimated period of benefit for deferred contract acquisition and fulfillment costs, the useful lives and recoverability of long-lived assets, the valuation of allowance for doubtful accounts, the valuation of stock-based compensation, the fair value of assets acquired and liabilities assumed in business combinations, the incremental borrowing rate for operating leases and the valuation for deferred tax assets. We base our estimates on historical experience and on various other assumptions that we believe are reasonable. Actual results could differ from those estimates.

The COVID-19 pandemic has resulted in a sustained global slowdown of economic activity that has decreased demand for a broad variety of goods and services, including from our customers. While we have not experienced significant disruptions from the COVID-19 pandemic during the three and six months ended June 30, 2021, we are unable to accurately predict the extent to which the COVID-19 pandemic may impact our business, results of operations and financial condition going forward. Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. As of the date of issuance of these financial statements, we are not aware of any specific event or circumstance that would require us to update our estimates, assumptions and judgments or revise the carrying value of our assets or liabilities. These estimates may change as new events occur and additional information is obtained and will be recognized in the consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to our financial statements.

Significant Accounting Policies

Our significant accounting policies are described in Note 2, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020. Other than the impact of our early adoption of Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* (ASU 2020-06) on January 1, 2021, as further detailed in Note 10, *Debt*, there have been no additional changes to the significant accounting policies during the three and six-month periods ended June 30, 2021.

Recent Accounting Pronouncements

Accounting Pronouncements Recently Adopted

In August 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* (ASU 2020-06), which simplified the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. We early adopted this standard on January 1, 2021 under the modified retrospective basis. Refer to Note 10, *Debt*, for further details of the impact the adoption of this standard had on our consolidated balance sheet.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This standard is intended to simplify various aspects related to accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying certain aspects of the current guidance to promote consistency among reporting entities. We adopted this standard on January 1, 2021 and there was no impact to our consolidated financial statements as a result of the adoption.

Accounting Pronouncements Not Yet Effective

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary optional expedients and exceptions to GAAP guidance on contract modifications to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) to alternative reference rates. We may elect to apply the amendments prospectively through December 31, 2022. The impact to our consolidated financial statements from the adoption of this standard is expected to be immaterial.

Note 2. Revenue from Contracts with Customers

We generate revenue primarily from: (1) subscriptions from the sale of cloud-based subscriptions, managed services, term software licenses, content subscriptions and maintenance and support associated with our software licenses, (2) perpetual software licenses, and (3) professional services from the sale of our deployment and training services related to our solutions, incident response services, penetration testing and security advisory services.

The following table summarizes revenue from contracts with customers for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
Subscriptions	$ 117,014	$ 89,591	$ 224,181	$ 174,139
Perpetual software licenses	2,036	2,636	4,150	5,406
Professional services	7,274	6,482	15,440	13,273
Other	97	203	101	434
Total revenue	$ 126,421	$ 98,912	$ 243,872	$ 193,252

Subscriptions

Subscriptions consists of revenue from our cloud-based subscription, managed services offerings, term software licenses and content subscriptions maintenance and support associated with our software licenses.

- We generate cloud-based subscription revenue primarily from sales of subscriptions to access our cloud platform, together with related support services to our customers. These arrangements do not provide the customer with the right to take possession of our software operating on our cloud platform at any time. Instead, customers are granted continuous access to our cloud platform over the contractual period. Revenue is recognized over time on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our cloud-based subscription contracts generally have annual or multi-year contractual terms which are billed in advance of the annual subscription period and are non-cancellable.

- Managed services offerings consist of fees generated when we operate our software and provide our capabilities on behalf of our customers. Revenue is recognized on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our managed services offerings generally have annual or multi-year contractual terms which are billed in advance of the annual subscription period and are non-cancellable.

- For our term software licenses where the utility to the customer is dependent on the continued delivery of content subscriptions, we recognize the license revenue over the contractual term of the arrangement as a material right does not exist. For our term software licenses which are not dependent on the continued delivery of content subscriptions, the license is considered distinct from the maintenance and support, and we therefore recognize revenue attributable to the license at the time of delivery.

- Content subscriptions and our maintenance and support services are sold with our perpetual and term software licenses. Revenue related to our content subscriptions associated with our software licenses is recognized ratably over the contractual period. Maintenance and support services are distinct from the perpetual and term software license and revenue attributable to maintenance and support services is recognized ratably over the contractual period.

Perpetual Software Licenses

For our perpetual software 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 software license. As a result, the revenue attributable to the perpetual software license is recognized ratably over the customer's estimated economic life of five years, which represents a longer period of time in comparison to the initial contractual period of maintenance and support. The estimated economic life of five years represents the period which the customer is expected to benefit from the material right. We estimated this period of benefit by taking into consideration several factors, including the terms and conditions of our customer contracts and renewals and the expected useful life of our technology.

For our perpetual software licenses which are not dependent on the continued delivery of content subscriptions, the license is considered distinct from the maintenance and support, and we therefore recognize revenue attributable to the license at the time of delivery.

Professional Services

All of our professional services are considered distinct performance obligations when sold stand alone or with other products. These contracts generally have terms of one year or less. For the majority of these contracts, revenue is recognized over time based upon the proportion of work performed to date.

Contracts with Multiple Performance Obligations

The majority of our contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price (SSP) basis. We determine SSP of our products and services based on our overall pricing objectives using all information reasonably available to us, taking into consideration market conditions and other factors, including the geographic locations of our customers, negotiated discounts from price lists and selling method (i.e., partner or direct). When available, we use directly observable stand-alone transactions to determine SSP. When not regularly sold on a stand-alone basis, we estimate SSP for our products and services utilizing historical sales data, including discounts from list price. The historical data is aggregated and analyzed by geographic location and selling method to establish a median or average price. Once SSP is established it is applied consistently to all transactions including that product or service utilizing a portfolio approach.

Contract Balances

Contract liabilities consist of deferred revenue and include payments received in advance of performance under the contract. Such amounts are recognized as revenue over the contractual period consistent with the above methodology. For the three months ended June 30, 2021 and 2020, we recognized revenue of $108.2 million and $84.8 million, respectively, and for the six months ended June 30, 2021 and 2020, we recognized revenue of $181.3 million and $149.3 million, respectively, that was included in the corresponding contract liability balance at the beginning of the periods presented. 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.

We receive payments from customers based upon contractual billing schedules. Accounts receivable are recorded when the right to consideration becomes unconditional. Unbilled receivables include amounts related to our contractual right to consideration for both completed and partially completed performance obligations that have not been invoiced. If the right to consideration is based on satisfaction of another performance obligation in the contract other than the passage of time, we record a contract asset. As of June 30, 2021 and December 31, 2020, unbilled receivables of $0.9 million and $1.2 million, respectively, are included in prepaid expenses and other current assets in our consolidated balance sheet. As of June 30, 2021 and December 31, 2020, we had no contract assets recorded on our consolidated balance sheet.

Transaction price allocated to the remaining performance obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied as of June 30, 2021. The estimated revenues do not include unexercised contract renewals.

	Next Twelve Months	Thereafter
	(in thousands)	
Subscriptions	$ 314,471	$ 91,750
Perpetual software licenses	5,981	1,813
Professional services	14,101	1,142

Note 3. Business Combinations

Velocidex

On April 12, 2021, we acquired Velocidex Enterprises Pty Ltd (Velocidex), a leading open-source technology and community used for endpoint monitoring, digital forensics, and incident response. The purchase price consisted of $2.7 million paid in cash and $0.3 million in deferred cash payments. The purchase price was allocated to developed technology intangible asset which has an estimated useful life of 6 years.

Alcide.IO Ltd.

On January 28, 2021, we acquired Alcide.IO Ltd. (Alcide), a leading provider of Kubernetes security, for a purchase consideration of $50.5 million, which was funded in cash.

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

Purchase price	$ 50,538
Recognized amount of identifiable assets acquired and liabilities assumed:	
Cash and cash equivalents	818
Other current assets	163
Deferred tax asset, long-term	1,621
Other assets	208
Accounts payable and other current liabilities	(3,489)
Intangible assets	10,400
Total identifiable net assets assumed	9,721
Goodwill	40,817
Total purchase price allocation	$ 50,538

We identified developed technology as the sole acquired intangible asset. The estimated fair value of the developed technology intangible asset was $10.4 million which was based on a valuation using the income approach. The estimated useful life of the developed technology is 6 years.

The excess of the purchase price over the tangible assets acquired, identifiable intangible assets 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 the technology acquired with our existing product offerings and being able to successfully market and sell these new features to our customer base. The goodwill was allocated to our one reporting unit. The acquired goodwill and intangible assets were not deductible for tax purposes.

Following the acquisition, certain retained employees of Alcide received an aggregate of 96,127 restricted stock units (RSUs), which will vest over a maximum of three years. The vesting of the RSUs are subject to the employee's continued service with us. Accordingly, stock-based compensation expense associated with the RSUs will be expensed as incurred in our post-acquisition financial statements.

In the six months ended June 30, 2021, we recorded $0.9 million of acquisition-related costs related to the acquisition of Alcide, of which $0.8 million was recorded to general and administrative expense and $0.1 million was recorded to sales and marketing expense.

During the three months ended June 30, 2021, we sold acquired intellectual property through an intercompany transaction, which resulted in $5.0 million of current tax expense and $3.9 million of deferred tax expense in Israel.

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

Divvy Cloud Corporation

On May 1, 2020, we acquired Divvy Cloud Corporation (DivvyCloud), a Cloud Security Posture Management (CSPM) company, for a purchase price with an aggregate fair value of $137.8 million.

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 net assets acquired, goodwill and intangible assets were $0.8 million, $115.7 million and $21.2 million, respectively. The goodwill was allocated to our one reporting unit. The acquired goodwill and intangible asset were not deductible for tax purposes.

Note 4. Investments

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

	As of June 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Description:				
U.S. government agencies	35,204	2	—	35,206
Commercial paper	55,227	—	—	55,227
Corporate bonds	29,218	11	(1)	29,228
Total	$ 119,649	$ 13	$ (1)	$ 119,661

	As of December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Description:				
U.S. government agencies	$ 83,596	$ 3	$ (12)	$ 83,587
Corporate bonds	24,162	31	(1)	24,192
Commercial paper	34,766	—	—	34,766
Agency bonds	3,998	1	—	3,999
Asset-backed securities	2,419	—	—	2,419
Total	$ 148,941	$ 35	$ (13)	$ 148,963

As of June 30, 2021, our available-for-sale investments had maturities ranging from 1 to 18 months. As of December 31, 2020, our available-for-sale investments had maturities ranging from 1 to 16 months.

For all of our investments for which the amortized cost basis was greater than the fair value at June 30, 2021 and December 31, 2020, 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 maturity. 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.

Note 5. Fair Value Measurements

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 we 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 and liabilities measured and recorded at fair value on a recurring basis using the above input categories:

	As of June 30, 2021			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Description:				
Assets:				
Money market funds	442,636	$ —	$ —	$ 442,636
U.S. government agencies	35,206	—	—	35,206
Commercial paper	—	55,227	—	55,227
Corporate bonds	—	29,228	—	29,228
Foreign currency forward contracts designated as cash flow hedges (prepaid expenses and other current assets)	—	159	—	159
Total	$ 477,842	$ 84,614	$ —	$ 562,456
Liabilities:				
Foreign currency forward contracts designated as cash flow hedges (other current liabilities)	$ —	$ 307	$ —	$ 307
Total	$ —	$ 307	$ —	$ 307

	As of December 31, 2020			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Description:				
Assets:				
Money market funds	$ 152,570	$ —	$ —	$ 152,570
U.S. government agencies	83,587	—	—	83,587
Commercial paper	—	34,766	—	34,766
Corporate bonds	—	24,192	—	24,192
Agency bonds	—	3,999	—	3,999
Asset-backed securities	—	2,419	—	2,419
Foreign currency forward contracts designated as cash flow hedges (prepaid expenses and other current assets)	—	432	—	432
Total	$ 236,157	$ 65,808	$ —	$ 301,965

As of June 30, 2021, the fair value of our 1.25%, 2.25% and 0.25% convertible senior notes due 2023, 2025 and 2027, as further described in Note 10, *Debt*, was $102.7 million, $381.7 million and $665.6 million, respectively, based upon quoted market prices. We consider the fair value of the Notes to be a Level 2 measurement due to limited trading activity of the Notes.

Note 6. Property and Equipment

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

	As of June 30, 2021	As of December 31, 2020
	(in thousands)	
Computer equipment and software	$ 14,576	$ 13,438
Furniture and fixtures	9,567	9,655
Leasehold improvements	50,584	50,336
Total	74,727	73,429
Less accumulated depreciation	(25,296)	(20,315)
Property and equipment, net	$ 49,431	$ 53,114

Depreciation expense was $3.1 million and $2.7 million for the three months ended June 30, 2021 and 2020, respectively, and $6.0 million and $5.4 million for the six months ended June 30, 2021 and 2020, respectively.

Note 7. Goodwill and Intangible Assets

Goodwill was $254.4 million and $213.6 million as of June 30, 2021 and December 31, 2020, respectively. The following table displays the changes in the gross carrying amount of goodwill:

	Amount
	(in thousands)
Balance at December 31, 2020	$ 213,601
Alcide acquisition	40,817
Balance at June 30, 2021	$ 254,418

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

		As of June 30, 2021			As of December 31, 2020		
	Weighted-Average Life (years)	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	$ 67,855	$ (30,441)	$ 37,414	$ 54,455	$ (24,780)	$ 29,675
Customer relationships	6.3	2,700	(1,164)	1,536	2,700	(958)	1,742
Trade names	5.4	1,419	(729)	690	1,419	(639)	780
Total acquired intangible assets		71,974	(32,334)	39,640	58,574	(26,377)	32,197
Internal-use software	3.0	20,207	(5,668)	14,539	16,002	(3,903)	12,099
Total intangible assets		$ 92,181	$ (38,002)	$ 54,179	$ 74,576	$ (30,280)	$ 44,296

Amortization expense was $4.0 million and $2.8 million for the three months ended June 30, 2021 and 2020, respectively, and $7.7 million and $5.0 million for the six months ended June 30, 2021 and 2020, respectively.

Estimated future amortization expense of the acquired identifiable intangible assets and completed capitalized internal-use software costs as of June 30, 2021 was as follows (in thousands):

2021 (for the remaining six months)	$	7,551
2022		12,792
2023		9,906
2024		6,223
2025		5,677
2026 and thereafter		3,629
Total	$	45,778

The table above excludes the impact of $8.4 million of capitalized internal-use software costs for projects that have not been completed as of June 30, 2021, and therefore, we have not determined the useful life of the software, nor have all the costs associated with these projects been incurred.

Note 8. Deferred Contract Acquisition and Fulfillment Costs

The following table summarizes the activity of the deferred contract acquisition and fulfillment costs for the six months ended June 30, 2021 and 2020:

	Six Months Ended June 30,			
	2021		2020	
	(in thousands)			
Beginning balance	$	64,639	$	51,260
Capitalization of contract acquisition and fulfillment costs		17,587		12,378
Amortization of deferred contract acquisition and fulfillment costs		(12,134)		(9,384)
Ending balance	$	70,092	$	54,254

Note 9. Derivatives and Hedging Activities

To mitigate our exposure to foreign currency fluctuations resulting from certain expenses denominated in certain foreign currencies, we enter into forward contracts that are designated as cash flow hedging instruments. These forward contracts have contractual maturities of eighteen months or less, and as of June 30, 2021 and December 31, 2020, outstanding forward contracts had a total notional value of $23.4 million and $12.5 million, respectively. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract. During the three months ended June 30, 2021, all cash flow hedges were considered effective. Refer to Note 5, *Fair Value Measurements*, for the fair values of our outstanding derivative instruments.

For the three and six months ended June 30, 2021, we reclassified realized gains of $0.2 million and $0.4 million, respectively, from accumulated other comprehensive income (loss) on our consolidated balance sheet to the financial statement line item associated with the underlying hedged transaction on our consolidated statement of operations.

Note 10. Debt

Convertible Senior Notes

In August 2018, we issued $230.0 million aggregate principal amount of convertible senior notes due August 1, 2023 (the 2023 Notes), in May 2020, we issued $230.0 million aggregate principal amount of convertible senior notes due May 1, 2025 (the 2025 Notes) and in March 2021, we issued $600.0 million aggregate principal amount of convertible senior notes due March 15, 2027 (the 2027 Notes) (collectively, the Notes). Further details of the Notes are as follows:

Issuance	Maturity Date	Interest Rate	First Interest Payment Date	Effective Interest Rate	Semi-Annual Interest Payment Dates	Initial Conversion Rate per $1,000 Principal	Initial Conversion Price	Number of Shares (in millions)
2023 Notes	August 1, 2023	1.25 %	February 1, 2019	1.86 %	February 1 and August 1	24.0460	$ 41.59	1.1
2025 Notes	May 1, 2025	2.25 %	November 1, 2020	2.88 %	May 1 and November 1	16.3875	$ 61.02	3.8
2027 Notes	March 15, 2027	0.25 %	September 15, 2021	0.67 %	March 15 and September 15	9.6734	$ 103.38	5.8

The 2023 Notes, the 2025 Notes and the 2027 Notes are senior unsecured obligations, do not contain any financial covenants and are governed by indentures between the Company, as issuer, and U.S. Bank National Association, as trustee (the Indentures). The total net proceeds from the 2023 Notes, the 2025 Notes and the 2027 Notes offerings, after deducting initial purchase discounts and estimated debt issuance costs, were $223.1 million, $222.8 million and $585.0 million, respectively.

Terms of the Notes

The holders of the Notes may convert their respective Notes at their option at any time prior to the close of business on the business day immediately preceding their respective convertible dates only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on December 31, 2018 for the 2023 Notes, September 30, 2020 for the 2025 Notes and March 20, 2024 for the 2027 Notes (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the respective Notes on each applicable trading day;

- during the five business day period after any five consecutive trading day period for the 2023 Notes and the 2025 Notes and any ten consecutive trading day period for the 2027 Notes (measurement periods) in which the trading price (as defined in the Indentures) per $1,000 principal amount of the applicable series of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate of the respective Notes on each such trading day;

- if we call any or all of the respective Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the respective redemption date; or

- upon the occurrence of specified corporate events (as set forth in the Indentures).

As of June 30, 2021, the conversion features of the 2023 Notes and the 2025 Notes were triggered as the last reported price of our common stock was greater than or equal to 130% of the conversion prices for at least 20 trading days in the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter, and therefore the 2023 Notes and the 2025 Notes were convertible, in whole or in part, at the option of the holders from July 1, 2021 through September 30, 2021. Whether the 2023 Notes or the 2025 Notes will be convertible following such period will depend on the continued satisfaction of this condition or another conversion condition in the future. Since we may elect to repay the 2025 Notes in cash, shares of our common stock, or a combination of both, we have continued to classify the 2025 Notes as long-term debt on our consolidated balance sheet as of June 30, 2021. We have classified the 2023 Notes as a current liability on our consolidated balance sheet as of June 30, 2021 as we expect to repay these 2023 Notes in a combination of cash and shares of our common stock within a year. As of June 30, 2021, the 2027 Notes are not convertible at the option of the holder.

The holders may convert the 2023 Notes, the 2025 Notes and the 2027 Notes at any time on or after February 1, 2023, November 1, 2024 and December 15, 2026, respectively, until the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the circumstances set forth above. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, in the manner and subject to the terms and conditions provided in the Indentures.

If we undergo a fundamental change (as set forth in the Indentures) at any time prior to the maturity date, holders of the Notes will have the right, at their option, to require us to repurchase for cash all or any portion of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, following certain corporate events that occur prior to the maturity date or following our issuance of a notice of redemption, in each case as described in the Indentures, we will increase the conversion rate for a holder of the Notes who elects to convert its Notes in connection with such a corporate event or during the related redemption period in certain circumstances.

We may not redeem the 2023 Notes, the 2025 Notes or the 2027 Notes prior to August 6, 2021, May 6, 2023 and March 20, 2024 (Redemption Dates), respectively. On or after the respective Redemption Dates, we may redeem for cash all or any portion of the 2023 Notes, the 2025 Notes or the 2027 Notes, at our option, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including the trading day immediately preceding, the date on which we provide the redemption notice at a redemption price equal to 100% principal amount of the 2023 Notes, the 2025 Notes or the 2027 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

Partial Repurchase and Conversion of the 2023 Notes

On March 16, 2021, we used a portion of the proceeds from the issuance of the 2027 Notes, together with 2.2 million shares of our common stock, to repurchase and retire $182.6 million aggregate principal amount of the 2023 Notes, and paid accrued and unpaid interest thereon (the 2023 Notes Repurchase Transaction). The 2023 Notes Repurchase Transaction was accounted for as an induced conversion in accordance with Accounting Standards Codification 470-20, *Debt with Conversion and Other Options* (ASC 470-20). The total fair value of the additional common stock issued to induce the conversion of $2.7 million was recognized as an inducement expense and classified as a component of interest expense in our consolidated statement of operations. The remaining cash and common stock consideration issued under the original terms of the 2023 Notes was accounted for under the general conversion accounting guidance where the difference between the carrying amount of the 2023 Notes retired, including unamortized debt issuance cost of $2.7 million, and the cash consideration paid and the par amount of the common stock issued, was recorded in additional paid-in capital.

During the first quarter of 2021, holders of the 2023 Notes elected to convert Notes with a principal amount of $2.0 million. Cash was paid for the principal and the excess conversion spread was paid in 23,123 shares of our common stock.

Accounting for the Notes

Prior to the Adoption of ASU 2020-06

Prior to our January 1, 2021 adoption of ASU 2020-06, the 2023 Notes and the 2025 Notes were separated into liability and equity components. The initial carrying amounts of the liability components were calculated by measuring the fair value of similar debt instruments that do not have an associated convertible feature. The initial carrying amounts of the equity components representing the option to convert the 2023 Notes and the 2025 Notes was $53.8 million and $48.3 million, respectively, and were determined by deducting the fair values of the liability components from the par value of the 2023 Notes and 2025 Notes. The equity components were recorded as an increase to additional paid-in capital and were not remeasured as long as they continued to meet the conditions for equity classification. The excess of the principal amount of the 2023 Notes and the 2025 Notes over their respective carrying amount of the liability component, or debt discount, was amortized to interest expense using the effective interest method over the contractual terms of the respective convertible senior notes.

In addition, prior to the adoption of ASU 2020-06, the debt issuance costs of $6.9 million and $7.2 million related to the 2023 Notes and the 2025 Notes, respectively, were allocated to the liability and equity components of the 2023 Notes and 2025 Notes based on their relative values. Debt issuance costs attributable to the liability component were $5.3 million and $5.7 million, for the 2023 Notes and the 2025 Notes, respectively, and were amortized to interest expense using the effective interest method over the contractual term of the 2023 Notes and 2025 Notes, respectively. Debt issuance costs attributable to the equity component of $1.6 million and $1.5 million for the 2023 Notes and the 2025 Notes, respectively, were netted with the equity component in additional paid-in capital.

Impact of the Adoption of ASU 2020-06

On January 1, 2021, we early adopted ASU 2020-06 on a modified retrospective basis. Under ASU 2020-06, we no longer separate the convertible senior notes into liability and equity components. We recognized the cumulative effect of initially applying this new standard as of January 1, 2021. Comparative prior year periods were not adjusted.

As a result of applying the modified retrospective method to adopt this standard, the following adjustments were made to the consolidated balance sheet as of January 1, 2021 (in thousands):

	As Reported	Adjustments					Adjusted Under ASU 2020-06
	December 31, 2020	Transfer Equity Component of the Debt to Liabilities	Reverse Equity Component of Debt Issuance Costs	Reverse Debt Discount Amortization	Record Debt Issuance Costs Amortization	Total	January 1, 2021
Liabilities and Stockholders' Equity:							
Convertible senior notes, net	$ 378,586	$ 102,166	$ (3,140)	$ (28,811)	$ 1,226	$ 71,441	$ 450,027
Total liabilities	$ 841,586	$ 102,166	$ (3,140)	$ (28,811)	$ 1,226	$ 71,441	$ 913,027
Stockholders' Equity:							
Additional paid-in capital	$ 692,603	$ (102,166)	$ 3,140	$ —	$ —	$ (99,026)	$ 593,577
Accumulated deficit	$ (617,279)	$ —	$ —	$ 28,811	$ (1,226)	$ 27,585	$ (589,694)
Total stockholders' equity	$ 71,536	$ (102,166)	$ 3,140	$ 28,811	$ (1,226)	$ (71,441)	$ 95
Total liabilities and stockholders' equity	$ 913,122	$ —	$ —	$ —	$ —	$ —	$ 913,122

Post Adoption of ASU 2020-06

In accounting for the issuance of the 2027 Notes, the principal of $600.0 million less estimated debt issuance costs of $15.0 million was recorded as long-term debt on our consolidated balance sheet. The debt issuance costs are amortized to interest expense using the effective interest method over the contractual term of the 2027 Notes.

The net carrying amount of the Notes as of June 30, 2021 and December 31, 2020 was as follows (in thousands):

	As of June 30, 2021				As of December 31, 2020		
	2023 Notes	2025 Notes	2027 Notes	Total	2023 Notes	2025 Notes	Total
Principal	$ 45,351	$ 230,000	$ 600,000	$ 875,351	$ 230,000	$ 230,000	$ 460,000
Unamortized debt discount	—	—	—	—	(30,425)	(42,930)	(73,355)
Unamortized debt issuance costs	(621)	(5,629)	(14,278)	(20,528)	(3,009)	(5,050)	(8,059)
Net carrying amount	$ 44,730	$ 224,371	$ 585,722	$ 854,823	$ 196,566	$ 182,020	$ 378,586

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

	Three Months Ended June 30,						
	2021				2020		
	2023 Notes	2025 Notes	2027 Notes	Total	2023 Notes	2025 Notes	Total
Contractual interest expense	$ 148	$ 1,294	$ 375	$ 1,817	$ 719	$ 863	$ 1,582
Amortization of debt discount	—	—	—	—	2,543	1,293	3,836
Amortization of debt issuance costs	153	341	602	1,096	251	152	403
Total interest expense	$ 301	$ 1,635	$ 977	$ 2,913	$ 3,513	$ 2,308	$ 5,821

	Six Months Ended June 30,						
	2021				2020		
	2023 Notes	2025 Notes	2027 Notes	Total	2023 Notes	2025 Notes	Total
Contractual interest expense	$ 706	$ 2,588	$ 425	$ 3,719	$ 1,438	$ 863	$ 2,301
Amortization of debt discount	—	—	—	—	5,039	1,293	6,332
Amortization of debt issuance costs	374	660	682	1,716	498	152	650
Induced conversion expense	2,740	—	—	2,740	—	—	—
Total interest expense	$ 3,820	$ 3,248	$ 1,107	$ 8,175	$ 6,975	$ 2,308	$ 9,283

Capped Calls

In connection with the offering of the 2023 Notes, the 2025 Notes and the 2027 Notes, we entered into privately negotiated capped call transactions with certain counterparties (the 2023 Capped Calls, 2025 Capped Calls and 2027 Capped Calls). The initial strike prices for the 2023 Capped Calls, the 2025 Capped Calls and the 2027 Capped Calls are $41.59, $61.02 and $103.38 per share, respectively, subject to certain adjustments, which correspond to the initial conversion price of the 2023 Notes, the 2025 Notes and the 2027 Notes. The initial cap prices for the 2023 Capped Calls, the 2025 Capped Calls and the 2027 Capped Calls are $63.98, $93.88 and $159.04 per share, respectively, subject to certain adjustments. The 2023 Capped Calls, the 2025 Capped Calls and the 2027 Capped Calls are expected to offset potential dilution to our common stock upon conversion of the respective 2023 Notes, the 2025 Notes or the 2027 Notes, with such offset subject to a cap based on the cap price. For accounting purposes, the 2023 Capped Calls, the 2025 Capped Calls and the 2027 Capped Calls are separate transactions, and not part of the terms of the 2023 Notes, the 2025 Notes and the 2027 Notes. The 2023 Capped Calls, the 2025 Capped Calls and the 2027 Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. Accordingly, the cost of $26.9 million, $27.3 million and $76.0 million, respectively, for the 2023 Capped Calls, the 2025 Capped Calls and the 2027 Capped Calls was recorded as a reduction to additional paid-in capital at the time of each transaction.

Credit Agreement

In April 2020, we entered into a Credit and Security Agreement (the Credit Agreement), with KeyBank National Association that provides for a $30.0 million revolving credit facility, with a letter of credit sublimit of $15.0 million and an accordion feature under which we can increase the credit facility to up to $70.0 million. In May 2020, we utilized the accordion feature to increase the credit facility to $50.0 million. We incurred fees of $0.4 million in connection with entering into the Credit Agreement. The fees are recorded in other current assets on the consolidated balance sheet and are amortized on a straight-line basis over the contractual term of the arrangement. The commitment fee of 0.2% per annum on the unused portion of the credit facility is expensed as incurred and included within interest expense on the consolidated statement of operations. The Credit Agreement matures on April 23, 2023 and contains certain financial covenants including a requirement that we maintain specified minimum recurring revenue and liquidity amounts.

The borrowings under the Credit Agreement bear interest, at our option, at a rate equal to either the London Interbank Offered Rate (LIBOR) rate (subject to a 1.00% floor), plus an applicable margin equal to 2.50% per annum or the alternate base rate (subject to a floor), plus an applicable margin equal to 0% per annum. As of June 30, 2021, we did not have any outstanding borrowings and we were in compliance with all covenants under the Credit Agreement.

As of June 30, 2021, we had a total of $7.6 million in letters of credit outstanding as collateral for certain office space leases and corporate credit card programs which reduce the amount of borrowing available under our Credit Agreement.

Note 11. Leases

Our leases primarily relate to office facilities that have remaining terms of up to 9.4 years, some of which include one or more options to renew with renewal terms of up to 5 years and some of which include options to terminate the leases within the next 6.2 years. All of our leases are classified as operating leases.

The components of lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
Operating lease cost	$ 3,779	$ 3,881	$ 7,545	$ 7,252
Short-term lease costs	154	224	319	514
Variable lease costs	1,317	1,367	2,780	2,289
Total lease costs	$ 5,250	$ 5,472	$ 10,644	$ 10,055

Supplemental balance sheet information related to the operating leases was as follows:

	As of June 30, 2021	As of December 31, 2020
Weighted average remaining lease term (in years) - operating leases	7.5	7.9
Weighted average discount rate - operating leases	7.6 %	7.7 %

Supplemental cash flow information related to leases was as follows:

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(in thousands)			
Cash paid for amounts included in the measurement of lease liabilities	$ 4,177	$ 2,524	$ 8,324	$ 6,360
ROU assets obtained in exchange for new lease obligations	$ 909	$ 11,607	$ 1,061	$ 15,597

Maturities of operating lease liabilities as of June 30, 2021 were as follows (in thousands):

2021 (for the remaining six months)	$ 7,469
2022	14,538
2023	14,220
2024	13,481
2025	12,564
2026 and thereafter	41,697
Total lease payments	$ 103,969
Less: imputed interest	(22,993)
Total	$ 80,976

Note 12. Stock-Based Compensation Expense

(a) General

Stock-based compensation expense for restricted stock units (RSUs), performance-based restricted stock units (PSUs), 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:

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(in thousands)			
Stock-based compensation expense:				
Cost of revenue	$ 1,812	$ 1,131	$ 3,366	$ 2,062
Research and development	9,420	6,389	17,235	11,034
Sales and marketing	6,038	4,345	11,784	8,023
General and administrative	6,544	4,581	12,291	8,674
Total stock-based compensation expense	$ 23,814	$ 16,446	$ 44,676	$ 29,793

We recognize compensation cost of all awards on a straight-line basis over the applicable vesting period, which is generally four years.

Our Compensation Committee adopted and approved the performance goals, targets and payout formulas for our 2021 and 2020 bonus plans, including permitting our executive officers and certain other employees the opportunity to receive payment of their earned bonuses in the form of common stock (in lieu of cash). During the three months ended June 30, 2021 and 2020, we recognized stock-based compensation expense related to such bonuses in the amount of $1.3 million and $0.4 million, respectively, and during the six months ended June 30, 2021 and 2020, we recognized stock-based compensation expense related to such bonuses in the amount of $2.3 million and $0.8 million, respectively, based on the probable expected performance against the pre-established corporate financial objectives as of June 30, 2021 and 2020. For all employees, including executive officers, who elect to receive their bonuses in the form of common stock (in lieu of cash), the payouts are expected to be made in the form of fully vested stock awards in the first quarter of the following year pursuant to our 2015 Equity Incentive Plan, as amended. The number of shares underlying such awards is determined by dividing the dollar value of the actual bonus award payment by the closing price per share of our common stock on the date of grant.

(b) *Restricted Stock Units and Performance-Based Restricted Stock Units*

RSUs and PSUs activity during the six months ended June 30, 2021 was as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of December 31, 2020	2,941,914	$ 45.86
Granted	1,596,786	88.11
Vested	(874,164)	42.46
Forfeited	(176,261)	59.86
Unvested balance as of June 30, 2021	3,488,275	$ 65.34

As of June 30, 2021, the unrecognized compensation expense related to our unvested RSUs and PSUs was $213.4 million. This unrecognized compensation expense will be recognized over an estimated weighted-average amortization period of 2.7 years.

(c) *Stock Options*

Stock option activity during the six months ended June 30, 2021 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2020	1,933,013	$ 10.07		
Granted	—	—		
Exercised	(278,816)	9.04		$ 20,586
Forfeited/cancelled	(300)	7.73		
Outstanding as of June 30, 2021	1,653,897	$ 10.24	3.6	$ 139,567
Vested and exercisable as of June 30, 2021	1,634,425	$ 10.09	3.6	$ 138,180

As of June 30, 2021, the unrecognized compensation expense related to our unvested stock options was $0.2 million. This unrecognized compensation expense will be recognized over an estimated weighted-average amortization period of 0.6 years.

The total fair value of stock options vested in the six months ended June 30, 2021 was $0.5 million.

(d) *Employee Stock Purchase Plan*

Under the Rapid7, Inc. 2015 Employee Stock Purchase Plan (ESPP), employees may set aside up to 15% of their gross earnings, on an after-tax basis, to purchase our common stock 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.

On March 15, 2021, we issued 147,837 shares of common stock to employees, with purchase prices of $28.39 or $52.60 per share, for aggregate proceeds of $4.5 million.

Note 13. Net Loss per Share

The following table summarizes the computation of basic and diluted net loss per share of our common stock for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands, except share and per share data)			
Numerator:				
Net loss	$ (34,164)	$ (21,466)	$ (64,009)	$ (44,390)
Denominator:				
Weighted-average common shares outstanding, basic and diluted	55,392,383	50,695,706	54,169,464	50,411,508
Net loss per share, basic and diluted	$ (0.62)	$ (0.42)	$ (1.18)	$ (0.88)

We intend to settle any conversion of our 2023 Notes, 2025 Notes and 2027 Notes in cash, shares, or a combination thereof. As a result of our adoption of ASU 2020-06 on January 1, 2021, the dilutive impact of the Notes for our calculation of diluted net income (loss) per share is considered using the if-converted method. For periods prior to our January 1, 2021 adoption of ASU 2020-06, we considered the impact of the Notes on our diluted net income (loss) per share calculation based on applying the treasury stock method as we had the ability, and intent, to settle any conversions of the Notes solely in cash at that time. For the three and six months ended June 30, 2021 and 2020, the shares underlying the Notes were not considered in the calculation of diluted net loss per share as the effect would have been anti-dilutive under each respective method.

In connection with the issuance of the 2023 Notes, the 2025 Notes and the 2027 Notes, we entered into 2023 Capped Calls, 2025 Capped Calls and 2027 Capped Calls, which were not included for the purpose of calculating the number of diluted shares outstanding, as their effect would have been anti-dilutive.

The following potentially dilutive securities outstanding have been excluded from the computation of diluted weighted-average shares outstanding for the respective periods below because they would have been anti-dilutive:

	Three and Six Months Ended June 30,	
	2021	2020
Options to purchase common stock	1,653,897	2,404,012
Unvested restricted stock units	3,488,275	3,639,708
Common shares to be issued to DivvyCloud founders	133,730	200,596
Shares to be issued under ESPP	50,382	77,926
Convertible senior notes	10,663,519	9,299,432
Total	15,989,803	15,621,674

Note 14. Commitments and Contingencies

(a) Warranty

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

(b) Litigation and Claims

In October 2018, Finjan, Inc. (Finjan) filed a complaint against us and our wholly-owned subsidiary, Rapid7 LLC, in the United States District Court, District of Delaware, alleging patent infringement of seven patents held by them. In the complaint, Finjan sought unspecified damages, attorneys' fees and injunctive relief. We intend to vigorously contest Finjan's claims. The final outcome, including our liability, if any, with respect to Finjan's claims, is uncertain. 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.

In addition, 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.

(c) 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.

As permitted under Delaware law, we have entered into indemnification agreements with our officers and directors, indemnifying them for certain events or occurrences while they serve as officers or directors of the company.

Note 15. 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 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
United States	$ 99,256	$ 79,457	$ 191,765	$ 155,295
Other	27,165	19,455	52,107	37,957
Total	$ 126,421	$ 98,912	$ 243,872	$ 193,252

Property and equipment, net by geographic area was as follows:

	As of June 30, 2021	As of December 31, 2020
	(in thousands)	
United States	$ 37,180	$ 40,101
Other	12,251	13,013
Total	$ 49,431	$ 53,114

Note 16. Subsequent Event

On July 16, 2021, we acquired all of the issued capital of IntSights Cyber Intelligence Ltd., a provider of contextualized external threat intelligence and proactive threat remediation, for consideration of approximately $321.0 million, an aggregate of 206,608 shares of Rapid7's common stock to be issued to the founders of IntSights in three installments over a thirty-month period following the close date and $5.6 million in deferred cash payments. As part of the acquisition, we acquired $12.7 million in cash resulting in a net cash outflow of $308.3 million at closing.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with (1) our unaudited consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and (2) the audited consolidated financial statements and the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2020 included in our Annual Report on Form 10-K, filed with the SEC on February 26, 2021. Forward-looking statements in this review are qualified by the cautionary statement included under the next sub-heading, "Special Note Regarding Forward-Looking Statements".

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the sections entitled "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;

• uncertain impacts that the COVID-19 pandemic may have on our business, strategy, operating results, financial condition and cash flows, as well as changes in overall level of software spending and volatility in the global economy;

• 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 annualized recurring revenue 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 II, 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.

Overview

Rapid7 is advancing security with visibility, analytics, and automation delivered through our Insight Platform. Our solutions simplify the complex, allowing security teams to work more effectively with IT and development to reduce vulnerabilities, monitor for misconfigurations and malicious behavior, investigate and shut down attacks, and automate routine tasks.

In the more than 20 years that Rapid7 has been in business, security companies and trends have come and gone, while broader technology innovation continues to advance rapidly. Every company is now a technology company, and rampant innovation inevitably creates security risk. The migration of businesses to the cloud, more distributed workforces and ubiquitous connected devices present security teams with an increasingly complex, ever-changing, and unpredictable attack surface.

We believe as cybersecurity challenges continue to rise exponentially, two key factors can prevent organizations from effectively managing their growing security exposure. First, the tools to manage complex security problems are often equally complicated to use. Second, there is a scarcity of cybersecurity professionals who are qualified to successfully manage these sophisticated tools. These two factors compound the difficulties that resource-constrained organizations face when attempting to minimize their security exposure, meet security compliance regulations and provide visibility to their leadership. We call the expanding divide between risk created through innovation and risk effectively managed by security teams the Security Achievement Gap.

We believe Rapid7 is uniquely positioned to improve how customer security challenges are addressed. All of our solutions and services are built with and supported by the expertise of our dedicated team of security researchers and consultants, who bring knowledge of attacker behavior and emerging vulnerabilities directly to customers. We also continue to invest in further simplifying our technology to improve usability, lowering the barrier for teams and organizations who lack resources to manage their security posture.

While our security technology is the foundation of our mission to make successful security accessible to all, technology alone will not solve today’s cybersecurity challenges. Our ongoing commitment to researching and partnering with the technology community helps to curb new security risks born through innovation. We are also investing in under-served, at risk communities, like non-profits and hospitals, to better understand their needs and make security technology and services accessible. By continuously improving our technology, stemming the creation of risk in the community, and making security more usable and accessible, Rapid7 aims to close the Security Achievement Gap.

We market and sell our products and professional services to organizations of all sizes globally, 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 June 30, 2021, we had over 9,300 customers in 144 countries, including 41% of the Fortune 100. Our revenue was not concentrated with any individual customer and no customer represented more than 1% of our revenue for the three and six months ended June 30, 2021 or 2020.

Recent Developments

Acquisitions

On July 16, 2021, we acquired IntSights Cyber Intelligence Ltd. (IntSights), a provider of contextualized external threat intelligence and proactive threat remediation, for consideration of approximately $321.0 million, an aggregate of 206,608 shares of Rapid7's common stock to be issued to the founders of IntSights in three installments over a thirty-month period following the close date, and $5.6 million in deferred cash payments. As part of the acquisition, we acquired $12.7 million in cash resulting in a net cash outflow of $308.3 million at closing.

On April 12, 2021, we acquired Velocidex Enterprises Pty Ltd (Velocidex), a leading open-source technology and community used for endpoint monitoring, digital forensics, and incident response, for a purchase price of $3.0 million.

COVID-19 Response

Rapid7 remains focused on supporting its customers, partners, employees and communities during the COVID-19 pandemic. The impact of COVID-19 on the global economy and on our business continues to be a fluid situation. As a result of the

COVID-19 pandemic, we have modified certain aspects of our business, including restricting employee travel, adopting a virtual sales strategy to enable most of our employees to work productively from home, transitioning our employee onboarding and training processes to remote or online programs, and canceling certain events and meetings, among other modifications.

We will continue to actively monitor the at times rapidly evolving situation related to COVID-19 and may take further actions that alter our business operations, including those that may be required by federal, foreign, state or local authorities, or that we determine are in the best interests of our employees, customers, partners, suppliers, vendors and stockholders. At this point, the extent to which the COVID-19 pandemic may impact our business, results of operations and financial condition is uncertain. Furthermore, due to our subscription model, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods. While we have not experienced significant disruptions from the COVID-19 pandemic during the three and six months ended June 30, 2021, we are unable to accurately predict the full impact that COVID-19 will have due to numerous uncertainties, including the duration of the outbreak, the result of vaccination efforts, resurgence of the virus, actions that may be taken by governmental authorities, the impact on our business including our sales cycle, sales execution and marketing efforts, and the impact to the business of our customers, vendors and partners. For further discussion of the challenges and risks we confront related to the COVID-19 pandemic, please refer to Part II, Item 1A Risk Factors of this Quarterly Report on Form 10-Q.

Our Business Model

We have offerings in five key areas: (1) Vulnerability Risk Management, (2) Incident Detection and Response, (3) Application Security and (4) Cloud Security and (5) Security Orchestration and Automation Response.

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 subscription basis. Our InsightIDR, InsightVM, InsightAppSec and InsightConnect products are offered as cloud-based subscriptions, generally with a one-year term.

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

- Licensed software, including both term and perpetual licenses, and the simultaneous sale of maintenance and support. Our Nexpose, Metasploit, AppSpider and DivvyCloud 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-year terms.

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, penetration testing 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.

For the three months ended June 30, 2021 and 2020, recurring revenue, defined as revenue from term software licenses, content subscriptions, managed services, cloud-based subscriptions and maintenance and support, was 93% and 91%, respectively, of total revenue. For the six months ended June 30, 2021 and 2020, recurring revenue was 92% and 90%, respectively, of total revenue.

Key Metrics

We monitor the following key metrics to help us measure and evaluate the effectiveness of our operations and as a means to evaluate period-to-period comparisons. We believe that both management and investors benefit from referring to these key metrics as supplemental information in assessing our performance and when planning, forecasting, and analyzing future periods. These key metrics also facilitate management's internal comparisons to our historical performance as well as comparisons to certain competitors' operating results. We believe these key metrics are useful to investors both because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and also because they are used by institutional investors and the analyst community to help evaluate the health of our business:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(dollars in thousands)			
Total revenue	$ 126,421	$ 98,912	$ 243,872	$ 193,252
Year-over-year revenue growth	27.8 %	25.3 %	26.2 %	27.0 %
Non-GAAP income from operations	$ 6,070	$ 4,265	$ 7,976	$ 332
Free cash flow	$ 5,040	$ (2,231)	$ 22,905	$ (13,676)

	As of June 30,	
	2021	2020
	(dollars in thousands)	
Number of customers [1]	9,315	8,223
Year-over-year customer growth	13 %	9 %
Annualized recurring revenue (ARR)	$ 488,860	$ 379,891
Year-over-year ARR growth	28.7 %	31.0 %

[1] In 2021, we modified our definition of a customer in order to better align the calculation of our number of customers with ARR. We previously defined 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 have eliminated the 90-day expiration period and removed professional services-only customers and low-value InsightOps customers. See the revised definition below. Prior period number of customers have been revised to conform with the modified definition.

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. We monitor total revenue and believe it is useful to investors as a measure of the overall success of our business.

Non-GAAP Income from Operations. We monitor non-GAAP income from operations, a non-GAAP financial measure, to analyze our financial results. We believe non-GAAP income from operations is useful to investors, as a supplement to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance and allowing for greater transparency with respect to metrics used by our management in its financial and operational decision-making. See Non-GAAP Financial Results below for further information on non-GAAP income from operations and a reconciliation of non-GAAP income from operations to the comparable GAAP financial measure.

Free Cash Flow. Free cash flow is a non-GAAP measure that we define as net cash provided by (used in) operating activities less purchases of property and equipment and capitalization of internal-use software costs. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after necessary capital expenditures. See Non-GAAP Financial Results below for a reconciliation of non-GAAP free cash flow to the comparable GAAP financial measure.

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 an active Rapid7 recurring revenue contract as of the specified measurement date, excluding InsightOps and Logentries only customers with a contract value less than $2,400 per year.

Annualized Recurring Revenue and Growth. Annualized Recurring Revenue (ARR) is defined as the annual value of all recurring revenue related to contracts in place at the end of the quarter. ARR should be viewed independently of revenue and deferred revenue as ARR is an operating metric and is not intended to be combined with or replace these items. ARR is not a forecast of future revenue, which can be impacted by contract start and end dates and renewal rates and does not include revenue reported as perpetual license or professional services revenue in our consolidated statement of operations. We use ARR and believe it is useful to investors as a measure of the overall success of our business.

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 income from operations, non-GAAP net income (loss), non-GAAP net income (loss) per share, adjusted EBITDA and free cash flow. 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 define non-GAAP gross profit, non-GAAP income from operations, non-GAAP net income (loss) and non-GAAP net income (loss) per share as the respective GAAP balances excluding the effect of stock-based compensation expense, amortization of acquired intangible assets, amortization of debt discount and issuance costs and certain other items such as acquisition-related expenses, litigation-related expenses and induced conversion expense. Non-GAAP net income (loss) per basic and diluted share is calculated as Non-GAAP net income (loss) divided by the weighted average shares used to compute net income (loss) per share, with the number of weighted average shares decreased to reflect the anti-dilutive impact of the capped call transactions entered into in connection with our convertible senior notes.

We believe these non-GAAP financial measures are useful to investors in assessing our operating performance due to the following factors:

- *Stock-based compensation expense.* 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 allows for more meaningful comparisons between our operating results from period to period.

- *Amortization of acquired intangible assets.* 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 intangible assets are valued at the time of acquisition and are amortized over several years after the acquisition.

- *Amortization of debt discount and issuance costs.* The expense for the amortization of debt discount and debt issuance costs related to our convertible senior notes and revolving credit facility is a non-cash item and we believe the exclusion of this interest expense provides a more useful comparison of our operational performance in different periods.

- *Induced conversion expense.* In conjunction with the first quarter of 2021 partial repurchase of our 1.25% convertible senior notes due 2023, we incurred an induced conversion expense of $2.7 million. We exclude induced conversion expense because this amount is not indicative of the performance of, or trends in, our business and neither is comparable to the prior period nor predictive of future results.

- *Litigation-related expenses.* We exclude certain litigation-related expenses consisting of professional fees and related costs incurred by us related to significant litigation outside the ordinary course of business. We believe it is useful to exclude such expenses because we do not consider such amounts to be part of our ongoing operations.

- *Acquisition-related expenses.* We exclude acquisition-related expenses that are unrelated to the current operations and neither are comparable to the prior period nor predictive of future results. Our acquisition-related expenses for the three and six months ended June 30, 2021 include $9.0 million of tax expense related to the sale of acquired intellectual property through an intercompany transaction related to the Alcide acquisition.

- *Anti-dilutive impact of capped call transaction.* Our capped calls transactions are intended to offset potential dilution from the conversion features in our convertible senior notes. Although we cannot reflect the anti-dilutive impact of the capped call transactions under GAAP, we do reflect the anti-dilutive impact of the capped call transactions in non-GAAP net income (loss) per diluted share to provide investors with useful information in evaluating our financial performance on a per share basis.

We define adjusted EBITDA as net loss before (1) interest income, (2) interest expense, (3) other income (expense), net, (4) provision for income taxes, (5) depreciation expense, (6) amortization of intangible assets, (7) stock-based compensation expense, and (8) certain other items. We believe that the use of adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods.

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 three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
GAAP total gross profit	$ 87,113	$ 69,831	$ 168,275	$ 136,457
Stock-based compensation expense	1,812	1,131	3,366	2,062
Amortization of acquired intangible assets	2,920	2,175	5,661	3,833
Non-GAAP total gross profit	$ 91,845	$ 73,137	$ 177,302	$ 142,352

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
GAAP gross profit – products	$ 85,978	$ 69,312	$ 165,613	$ 135,606
Stock-based compensation expense	1,200	710	2,218	1,283
Amortization of acquired intangible assets	2,920	2,175	5,661	3,833
Non-GAAP gross profit – products	$ 90,098	$ 72,197	$ 173,492	$ 140,722

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
GAAP gross profit – professional services	$ 1,135	$ 519	$ 2,662	$ 851
Stock-based compensation expense	612	421	1,148	779
Non-GAAP gross profit – professional services	$ 1,747	$ 940	$ 3,810	$ 1,630

The following table reconciles GAAP loss from operations to non-GAAP income from operations for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
GAAP loss from operations	$ (21,926)	$ (15,732)	$ (45,042)	$ (35,552)
Stock-based compensation expense	23,814	16,446	44,676	29,793
Amortization of acquired intangible assets	3,068	2,285	5,957	3,975
Acquisition-related expenses	863	831	2,031	1,138
Litigation-related expenses	251	435	354	978
Non-GAAP income from operations	$ 6,070	$ 4,265	$ 7,976	$ 332

The following table reconciles GAAP net loss to non-GAAP net income (loss) for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands, except share and per share data)			
GAAP net loss	$ (34,164)	$ (21,466)	$ (64,009)	$ (44,390)
Stock-based compensation expense	23,814	16,446	44,676	29,793
Amortization of acquired intangible assets	3,068	2,285	5,957	3,975
Acquisition-related expenses	9,828	831	10,996	1,138
Litigation-related expenses	251	435	354	978
Amortization of debt discount and issuance costs	1,133	4,264	1,791	7,007
Induced conversion expense	—	—	2,740	—
Non-GAAP net income (loss)	$ 3,930	$ 2,795	$ 2,505	$ (1,499)
Reconciliation of net loss per share, basic:				
GAAP net loss per share, basic	$ (0.62)	$ (0.42)	$ (1.18)	$ (0.88)
Non-GAAP adjustments to net loss	0.69	0.48	1.23	0.85
Non-GAAP net income (loss) per share, basic	$ 0.07	$ 0.06	$ 0.05	$ (0.03)
Reconciliation of net loss per share, diluted:				
GAAP net loss per share, diluted	$ (0.62)	$ (0.42)	$ (1.18)	$ (0.88)
Non-GAAP adjustments to net loss	0.69	0.47	1.22	0.85
Non-GAAP net income (loss) per share, diluted	$ 0.07	$ 0.05	$ 0.04	$ (0.03)
Weighted average shares used in GAAP and non-GAAP per share calculation, basic and diluted	55,392,383	50,695,706	54,169,464	50,411,508
Weighted average shares used in GAAP and non-GAAP per share calculation:				
Basic	55,392,383	50,695,706	54,169,464	50,411,508
Diluted	57,731,694	53,063,261	56,626,465	50,411,508

The following table reconciles GAAP net loss to adjusted EBITDA for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
GAAP net loss	$ (34,164)	$ (21,466)	$ (64,009)	$ (44,390)
Interest income	(122)	(208)	(218)	(1,256)
Interest expense	3,059	5,917	8,453	9,379
Other (income) expense, net	(148)	(210)	919	237
Provision for income taxes	9,449	235	9,813	478
Depreciation expense	3,053	2,740	6,047	5,415
Amortization of intangible assets	3,975	2,836	7,721	5,004
Stock-based compensation expense	23,814	16,446	44,676	29,793
Acquisition-related expenses	863	831	2,031	1,138
Litigation-related expenses	251	435	354	978
Adjusted EBITDA	$ 10,030	$ 7,556	$ 15,787	$ 6,776

The following table reconciles net cash provided by (used in) operating activities to free cash flow for the three and six months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
Net cash provided by (used in) operating activities	$ 9,186	$ 442	$ 29,781	$ (6,773)
Purchases of property and equipment	(1,699)	(1,199)	(2,671)	(3,955)
Capitalized internal-use software costs	(2,447)	(1,474)	(4,205)	(2,948)
Free cash flow	$ 5,040	$ (2,231)	$ 22,905	$ (13,676)

Components of Results of Operations

Revenue

We generate revenue primarily from selling products and professional services through a variety of delivery models to meet the needs of our diverse customer base.

Products

We generate products revenue from the sale of (1) cloud-based subscriptions, (2) managed services offerings, which utilize our products and (3) term or perpetual software licenses for our products, as well as associated content subscriptions. We also generate revenue when customers purchase or renew agreements for maintenance and support of their software licenses. Substantially all of our customers purchase an agreement for maintenance and support in connection with their purchase of a software license.

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.

Cost of Revenue

Our total cost of revenue consists of the costs of products and professional services. Cost of revenue includes overhead costs for depreciation, facilities, IT, information security, and recruiting. Our IT overhead costs include IT personnel compensation costs and costs associated with our IT infrastructure. All overhead costs are allocated based on relative headcount.

Cost of Products

Cost of products consists of personnel and related costs for our content, support, managed service and cloud operations teams, including salaries and other payroll related costs, bonuses, stock-based compensation and allocated overhead costs. Also included in cost of products are software license fees, cloud computing costs and internet connectivity expenses directly related to delivering our products, amortization of contract fulfillment costs, as well as amortization of certain intangible assets including internally developed software.

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 costs.

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 fluctuate over time depending on the factors described above.

Operating Expenses

Operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Operating expenses include overhead costs for depreciation, facilities, IT, information security and recruiting. Our IT overhead costs include IT personnel compensation costs and costs associated with our IT infrastructure. All 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 travel and entertainment, consulting and professional fees for third-party development resources as well as allocated overhead costs.

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 and to increase slightly 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, including amortization of deferred 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 costs.

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 executive, 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, professional fees, litigation-related expenses, insurance, acquisition-related expenses, amortization of certain intangible assets and allocated overhead costs.

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 remain relatively consistent as a percentage of total revenue.

Interest Income

Interest income consists primarily of interest income on our cash and cash equivalents and our short and long-term investments.

Interest Expense

Interest expense consists primarily of contractual interest expense, amortization of debt discount and issuance costs related to our convertible senior notes and revolving credit facility and induced conversion expense.

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.

Provision for Income Taxes

Provision for income taxes consists of income taxes in foreign jurisdictions where we conduct business, withholding taxes, and state income taxes in the United States. We maintain a full valuation allowance for domestic and certain foreign deferred tax assets, including net operating loss carryforwards and tax credits. Based on our history of losses, we expect to maintain this full valuation allowance for the foreseeable future as it is more likely than not that some or all of those deferred tax assets may not be realized.

Results of Operations

The following table sets forth our selected consolidated statements of operations data:

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(in thousands)			
Consolidated Statement of Operations Data:				
Revenue:				
Products	$ 119,147	$ 92,430	$ 228,432	$ 179,979
Professional services	7,274	6,482	15,440	13,273
Total revenue	126,421	98,912	243,872	193,252
Cost of revenue:(1)				
Products	33,169	23,118	62,819	44,373
Professional services	6,139	5,963	12,778	12,422
Total cost of revenue	39,308	29,081	75,597	56,795
Operating expenses:(1)				
Research and development	35,305	26,120	68,385	50,322
Sales and marketing	56,246	44,959	111,224	93,104
General and administrative	17,488	14,484	33,708	28,583
Total operating expenses	109,039	85,563	213,317	172,009
Loss from operations	(21,926)	(15,732)	(45,042)	(35,552)
Interest income	122	208	218	1,256
Interest expense	(3,059)	(5,917)	(8,453)	(9,379)
Other income (expense), net	148	210	(919)	(237)
Loss before income taxes	(24,715)	(21,231)	(54,196)	(43,912)
Provision for income taxes	9,449	235	9,813	478
Net loss	$ (34,164)	$ (21,466)	$ (64,009)	$ (44,390)

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

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(in thousands)			
Stock-based compensation expense:				
Cost of revenue	$ 1,812	$ 1,131	$ 3,366	$ 2,062
Research and development	9,420	6,389	17,235	11,034
Sales and marketing	6,038	4,345	11,784	8,023
General and administrative	6,544	4,581	12,291	8,674
Total stock-based compensation expense	$ 23,814	$ 16,446	$ 44,676	$ 29,793

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(in thousands)			
Depreciation and amortization expense:				
Cost of revenue	$ 4,385	$ 3,238	$ 8,536	$ 5,861
Research and development	871	693	1,729	1,352
Sales and marketing	1,305	1,224	2,574	2,390
General and administrative	467	421	929	816
Total depreciation and amortization expense	$ 7,028	$ 5,576	$ 13,768	$ 10,419

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Consolidated Statement of Operations Data:				
Revenue:				
Products	94.2 %	93.4 %	93.7 %	93.1 %
Professional services	5.8	6.6	6.3	6.9
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Products	26.2	23.4	25.8	23.0
Professional services	4.9	6.0	5.2	6.4
Total cost of revenue	31.1	29.4	31.0	29.4
Operating expenses:				
Research and development	27.9	26.4	28.0	26.0
Sales and marketing	44.5	45.5	45.6	48.2
General and administrative	13.8	14.6	13.8	14.8
Total operating expenses	86.3	86.5	87.5	89.0
Loss from operations	(17.3)	(15.9)	(18.5)	(18.4)
Interest income	0.1	0.2	0.1	0.6
Interest expense	(2.4)	(6.0)	(3.5)	(4.9)
Other income (expense), net	0.1	0.2	(0.4)	(0.1)
Loss before income taxes	(19.5)	(21.5)	(22.2)	(22.8)
Provision for income taxes	7.5	0.2	4.0	0.2
Net loss	(27.0)%	(21.7)%	(26.2)%	(23.0)%

Comparison of the Three Months Ended June 30, 2021 and 2020

Revenue

	Three Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Revenue:				
Products	$ 119,147	$ 92,430	$ 26,717	28.9 %
Professional services	7,274	6,482	792	12.2
Total revenue	$ 126,421	$ 98,912	$ 27,509	27.8 %

Total revenue increased by $27.5 million in the three months ended June 30, 2021 compared to the same period in 2020. The $27.5 million increase in revenue consisted of a $1.2 million increase in revenue from new customers and a $26.3 million increase in revenue from existing customers. The $26.3 million increase in revenue from existing customers was due to an increase in revenue from renewals, upsells and cross-sells as a result of the continued growth of our customer base. Revenue from new customers represents the revenue recognized from the customer's initial purchase. All renewals, upsells and cross-sells are considered revenue from existing customers.

The increase in total revenue in the three months ended June 30, 2021 compared to the same period in 2020 was comprised of $20.9 million generated from sales in North America and $6.6 million generated from sales from the rest of the world.

Cost of Revenue

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Change $	Change %
	(dollars in thousands)			
Cost of revenue:				
Products	$ 33,169	$ 23,118	$ 10,051	43.5 %
Professional services	6,139	5,963	176	3.0
Total cost of revenue	$ 39,308	$ 29,081	$ 10,227	35.2 %
Gross margin %:				
Products	72.2 %	75.0 %		
Professional services	15.6	8.0		
Total gross margin %	68.9 %	70.6 %		

Total cost of revenue increased by $10.2 million in the three months ended June 30, 2021 compared to the same period in 2020, primarily due to a $5.4 million increase in cloud computing costs related to growing cloud-based subscription revenue and a $3.6 million increase in personnel costs, inclusive of a $0.7 million increase in stock-based compensation expense, resulting from an increase in headcount to support our growing customer base. Our increase in total cost of revenue also included a $0.8 million increase in amortization expense for acquired intangible assets and a $0.4 million increase in other expenses.

Total gross margin percentage decreased for the three months ended June 30, 2021 compared to the same period in 2020. The decrease in products gross margin for the three months ended June 30, 2021 was primarily due to an increase in revenue from cloud-based subscriptions and managed services, which have lower gross margins than our licensed software products. The increase in professional services gross margin for the three months ended June 30, 2021 was primarily due to the increase in professional services revenue.

Operating Expenses

Research and Development Expense

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Change $	Change %
	(dollars in thousands)			
Research and development	$ 35,305	$ 26,120	$ 9,185	35.2 %
% of revenue	27.9 %	26.4 %		

Research and development expense increased by $9.2 million in the three months ended June 30, 2021 compared to the same period in 2020, primarily due to a $7.3 million increase in personnel costs, a $1.0 million increase in allocated overhead driven largely by an increase in IT and facilities costs, a $0.7 million increase in third-party infrastructure costs, and a $0.2 million increase in other expenses. The $7.3 million increase in personnel costs was primarily due to a $4.3 million increase in salaries and related costs driven by growth in headcount, inclusive of $3.9 million in additional salaries and related costs attributable to the employees acquired in the acquisition of DivvyCloud in May 2020 and the acquisition of Alcide in January 2021, and a $3.0 million increase in stock-based compensation expense, including $1.4 million of stock-based compensation expense related to employees acquired in the acquisitions of DivvyCloud and Alcide.

Sales and Marketing Expense

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Change $	Change %
	(dollars in thousands)			
Sales and marketing	$ 56,246	$ 44,959	$ 11,287	25.1 %
% of revenue	44.5 %	45.5 %		

Sales and marketing expense increased by $11.3 million in the three months ended June 30, 2021 compared to the same period in 2020, primarily due to a $7.4 million increase in personnel costs, a $1.9 million increase in commission expense, a $1.0 million increase in marketing and advertising costs and a $1.0 million increase in other expenses. The $7.4 million increase in personnel costs was primarily due to a $5.7 million increase in salaries and related costs driven by growth in headcount, inclusive of $0.7 million of additional costs attributable to the employees acquired in the DivvyCloud acquisition in May 2020, and a $1.7 million increase in stock-based compensation expense.

General and Administrative Expense

	Three Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
General and administrative	$ 17,488	$ 14,484	$ 3,004	20.7 %
% of revenue	13.8 %	14.6 %		

General and administrative expense increased by $3.0 million in the three months ended June 30, 2021 compared to the same period in 2020, primarily due to a $2.0 million increase in personnel costs related to an increase in stock-based compensation expense, a $0.9 million increase in professional consulting fees and a $0.8 million increase in other expenses. These increases were partially offset by a $0.7 million decrease in bad debt expense.

Interest Income

	Three Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Interest income	$ 122	$ 208	$ (86)	(41.3)%
% of revenue	0.1 %	0.2 %		

Interest income decreased by $0.1 million in the three months ended June 30, 2021 compared to the same period in 2020 primarily due to a decrease in interest rates.

Interest Expense

	Three Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Interest expense	$ (3,059)	$ (5,917)	$ 2,858	(48.3)%
% of revenue	(2.4)%	(6.0)%		

Interest expense decreased by $2.9 million in the three months ended June 30, 2021 compared to the same period in 2020 primarily due to a $3.8 million decrease in amortization of debt discount costs as a result of our adoption of ASU 2020-06, partially offset by a $0.7 million increase in amortization of debt issuance costs related to the 2025 Notes issued in May 2020, the 2027 Notes issued in March 2021 and the revolving credit facility issued in April 2020 and a $0.2 million increase in contractual interest.

Other Income (Expense), Net

	Three Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Other income (expense), net	$ 148	$ 210	$ (62)	(29.5)%
% of revenue	0.1 %	0.2 %		

Other income (expense), net decreased by $0.1 million in the three months ended June 30, 2021 compared to the same period in 2020 due to realized and unrealized foreign currency losses, primarily related to the euro and British pound sterling.

Provision for Income Taxes

	Three Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Provision for income taxes	$ 9,449	$ 235	$ 9,214	3,920.9 %
% of revenue	7.5 %	0.2 %		

Provision for income taxes increased by $9.2 million in the three months ended June 30, 2021 compared to the same period in 2020 primarily due to $9.0 million of tax expense recorded for an intercompany sale of intellectual property as part of post-acquisition tax planning related to the Alcide acquisition and an increase of $0.2 million due to our increased operations in foreign jurisdictions.

Comparison of the Six Months Ended June 30, 2021 and 2020

Revenue

	Six Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Revenue:				
Products	$ 228,432	$ 179,979	$ 48,453	26.9 %
Professional services	15,440	13,273	2,167	16.3
Total revenue	$ 243,872	$ 193,252	$ 50,620	26.2 %

Total revenue increased by $50.6 million in the six months ended June 30, 2021 compared to the same period in 2020. The $50.6 million increase in revenue consisted of a $2.3 million increase in revenue from new customers and a $48.3 million increase in revenue from existing customers. The $48.3 million increase in revenue from existing customers was due to an increase in revenue from renewals, upsells and cross-sells as a result of the continued growth of our customer base. Revenue from new customers represents the revenue recognized from the customer's initial purchase. All renewals, upsells and cross-sells are considered revenue from existing customers.

The increase in total revenue in the six months ended June 30, 2021 compared to the same period in 2020 was comprised of $38.6 million generated from sales in North America and $12.0 million generated from sales from the rest of the world.

Cost of Revenue

	Six Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Cost of revenue:				
Products	$ 62,819	$ 44,373	$ 18,446	41.6 %
Professional services	12,778	12,422	356	2.9
Total cost of revenue	$ 75,597	$ 56,795	$ 18,802	33.1 %
Gross margin %:				
Products	72.5 %	75.3 %		
Professional services	17.2	6.4		
Total gross margin %	69.0 %	70.6 %		

Total cost of revenue increased by $18.8 million in the six months ended June 30, 2021 compared to the same period in 2020, primarily due to a $9.5 million increase in cloud computing costs related to growing cloud-based subscription revenue and a $7.5 million increase in personnel costs, inclusive of a $1.3 million increase in stock-based compensation expense, resulting from an increase in headcount to support our growing customer base. The $7.5 million increase in personnel costs included $0.3 million of additional costs attributable to the employees acquired in the DivvyCloud acquisition in May 2020. Our increase in total cost of revenue also included a $1.8 million increase in amortization expense for acquired intangible assets.

Total gross margin percentage decreased for the six months ended June 30, 2021 compared to the same period in 2020. The decrease in products gross margin for the six months ended June 30, 2021 was primarily due to an increase in revenue from cloud-based subscriptions and managed services, which have lower gross margins than our licensed software products. The increase in professional services gross margin for the six months ended June 30, 2021 was primarily due to the increase in professional services revenue.

Operating Expenses

Research and Development Expense

	Six Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Research and development	$ 68,385	$ 50,322	$ 18,063	35.9 %
% of revenue	28.0 %	26.0 %		

Research and development expense increased by $18.1 million in the six months ended June 30, 2021 compared to the same period in 2020, primarily due to a $15.7 million increase in personnel costs, a $1.8 million increase in third-party infrastructure costs and a $0.6 million increase in other expenses. The $15.7 million increase in personnel costs was primarily due to a $9.5 million increase in salaries and related costs driven by growth in headcount, inclusive of $8.7 million in additional salaries and related costs attributable to the employees acquired in the acquisition of DivvyCloud in May 2020 and the acquisition of Alcide in January 2021, and a $6.2 million increase in stock-based compensation expense, including $3.3 million of stock-based compensation expense related to employees acquired in the acquisitions of DivvyCloud and Alcide.

Sales and Marketing Expense

	Six Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Sales and marketing	$ 111,224	$ 93,104	$ 18,120	19.5 %
% of revenue	45.6 %	48.2 %		

Sales and marketing expense increased by $18.1 million in the six months ended June 30, 2021 compared to the same period in 2020, primarily due to a $14.2 million increase in personnel costs, a $3.5 million increase in commission expense, a $1.9 million increase in marketing and advertising costs, a $0.7 million increase in professional consulting fees and a $1.0 million increase in other expenses. The $14.2 million increase in personnel costs was primarily due to a $10.4 million increase in salaries and related costs driven by growth in headcount, inclusive of $1.2 million of additional costs attributable to the employees acquired in the acquisition of DivvyCloud in May 2020, and a $3.8 million increase in stock-based compensation expense. These increases were partially offset by a $2.0 million decrease in allocated overhead driven by costs related to our global kick-off meeting in the prior year and a $1.2 million decrease in travel and entertainment expenses as a result of reduced travel due to the COVID-19 pandemic.

General and Administrative Expense

	Six Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
General and administrative	$ 33,708	$ 28,583	$ 5,125	17.9 %
% of revenue	13.8 %	14.8 %		

General and administrative expense increased by $5.1 million in the six months ended June 30, 2021 compared to the same period in 2020, primarily due to a $4.9 million increase in personnel costs due to an increase in headcount, inclusive of a $3.6 million increase in stock-based compensation expense, and a $1.2 million increase in professional fees primarily due to acquisition-related expenses and other professional consulting fees and a $0.4 million increase in other expenses. These increases were partially offset by a $1.4 million decrease in bad debt expense.

Interest Income

	Six Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Interest income	$ 218	$ 1,256	$ (1,038)	(82.6)%
% of revenue	0.1 %	0.6 %		

Interest income decreased by $1.0 million in the six months ended June 30, 2021 compared to the same period in 2020 primarily due to a decrease in interest rates.

Interest Expense

	Six Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Interest expense	$ (8,453)	$ (9,379)	$ 926	(9.9)%
% of revenue	(3.5)%	(4.9)%		

Interest expense decreased by $0.9 million in the six months ended June 30, 2021 compared to the same period in 2020 primarily due to a $6.3 million decrease in amortization of debt discount costs as a result of our adoption of ASU 2020-06, partially offset by $2.7 million of induced conversion expense incurred in conjunction with the partial repurchase of the 2023 Notes, a $1.6 million increase in contractual interest and a $1.1 million increase in amortization of debt issuance costs related to the 2025 Notes issued in May 2020, the 2027 Notes issued in March 2021 and the revolving credit facility issued in April 2020.

Other Income (Expense), Net

	Six Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Other income (expense), net	$ (919)	$ (237)	$ (682)	287.8 %
% of revenue	(0.4)%	(0.1)%		

Other income (expense), net decreased by $0.7 million in the six months ended June 30, 2021 compared to the same period in 2020 due to realized and unrealized foreign currency losses, primarily related to the euro and British pound sterling.

Provision for Income Taxes

	Six Months Ended June 30,		Change	
	2021	2020	$	%
	(dollars in thousands)			
Provision for income taxes	$ 9,813	$ 478	$ 9,335	1,952.9 %
% of revenue	4.0 %	0.2 %		

Provision for income taxes increased by $9.3 million in the six months ended June 30, 2021 compared to the same period in 2020 primarily due to $9.0 million of tax expense recorded for an intercompany sale of intellectual property as part of post-acquisition tax planning related to the Alcide acquisition and an increase of $0.3 million due to our increased operations in foreign jurisdictions.

Liquidity and Capital Resources

As of June 30, 2021, we had $493.6 million in cash and cash equivalents, $119.7 million in short- and long-term investments that have maturities ranging from one to thirteen months and an accumulated deficit of $653.7 million. Since our inception, we have generated significant losses and expect to continue to generate losses for the foreseeable future. Our principal sources of liquidity are cash and cash equivalents, short and long-term investments and our Credit and Security Agreement (Credit Agreement). To date, we have financed our operations primarily through private and public equity financings and issuance of convertible senior notes and through cash generated by operating activities.

We believe that our existing cash and cash equivalents, our short and long-term investments and our available borrowings under our Credit Agreement 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 service offerings and the cost of any future acquisitions of technology or businesses and any election we make to redeem our convertible senior notes. We expect to repay within a year, in a combination of cash and shares of our common stock, the $45.4 million in outstanding principal of the 1.25% convertible senior notes due 2023 (the 2023 Notes). 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.

Cash Flows

The following table shows a summary of our cash flows for the six months ended June 30, 2021 and 2020:

	Six Months Ended June 30,	
	2021	2020
	(in thousands)	
Cash, cash equivalents and restricted cash at beginning of period	$ 173,617	$ 123,413
Net cash provided by (used in) operating activities	29,781	(6,773)
Net cash used in investing activities	(32,166)	(35,334)
Net cash provided by financing activities	322,666	199,621
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(293)	(301)
Cash, cash equivalents and restricted cash at end of period	$ 493,605	$ 280,626

Acquisitions

On April 12, 2021, we acquired Velocidex Enterprises Pty Ltd (Velocidex), a leading open-source technology and community used for endpoint monitoring, digital forensics, and incident response, for a purchase price of $3.0 million.

On January 28, 2021, we acquired Alcide, a leading provider of Kubernetes security, for a purchase price of $50.5 million.

Convertible Senior Notes

In March 2021, we issued $600.0 million aggregate principal amount of 0.25% convertible senior notes due 2027 (the 2027 Notes). The total net proceeds from the offering, after deducting initial purchase discounts and estimated debt issuance costs, were approximately $585.0 million. We used $182.6 million of the net proceeds from the 2027 Notes and issued 2.2 million shares of our common stock to repurchase approximately $182.6 million aggregate principal amount of our outstanding 1.25% convertible senior notes due 2023 in a privately negotiated transaction concurrently with the issuance of the 2027 Notes. In connection with the issuance of the 2027 Notes, we entered into capped call transactions with certain counterparties (the 2027 Capped Calls). We used $76.0 million of the net proceeds from the 2027 Notes to purchase the 2027 Capped Calls.

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 business acquisitions and purchases of property and equipment, including leasehold improvements for our facilities.

Operating Activities

Operating activities provided $29.8 million of cash and cash equivalents in the six months ended June 30, 2021, which reflects the timing of working capital adjustments and our continued growth in revenue partially offset by our continued investments in our operations. Cash provided by operating activities reflected our net loss of $64.0 million, offset by a decrease in our net operating assets of $25.5 million and non-cash charges of $68.3 million related primarily to depreciation and amortization, stock-based compensation expense, deferred income taxes, induced conversion expense, amortization of debt issuance costs and other non-cash charges. The decrease in our net operating assets was primarily due to a $22.2 million increase in deferred revenue due to increased billings, a $12.8 million decrease in accounts receivable due to an increase in collections, a $4.4 million increase in other liabilities and a $0.4 million decrease in prepaid expenses and other assets, which each had a positive impact on operating cash flow. These factors were partially offset by a $7.6 million decrease in accrued expenses, primarily as a result of the payout of annual bonuses and year-end commissions, a $5.5 million increase in deferred contract acquisition and fulfillment costs, and a $1.3 million decrease in accounts payable, which each had a negative impact on operating cash flow.

Operating activities used $6.8 million of cash and cash equivalents in the six months ended June 30, 2020, which reflected our continued growth in revenue offset by continued investments in our operations and impact of the timing of working capital items. Cash used in operating activities reflected our net loss of $44.4 million and an increase in our net operating assets and liabilities of $10.7 million, offset by $48.3 million of non-cash charges related primarily to depreciation and amortization, stock-based compensation expense, amortization of debt discount and debt issuance costs, provision for doubtful accounts and other non-cash charges. The increase in our net operating assets and liabilities was primarily due to a $12.0 million decrease in deferred revenue, a $7.4 million decrease in accrued expenses, primarily as a result of the payout of annual bonuses and year-end commissions, a $1.0 million decrease in other liabilities, a $3.0 million increase in deferred contract acquisition and fulfillment costs, which each had a negative impact on operating cash flow. These factors were partially offset by a $10.8 million decrease in accounts receivable due to an increase in collections, and a $0.1 million increase in accounts payable and a $1.8 million decrease in prepaid expenses and other assets, which each had a positive impact on operating cash flow.

Investing Activities

Investing activities used $32.2 million of cash in the six months ended June 30, 2021, consisting of $52.4 million of cash paid for the acquisitions of Alcide and Velocidex, net of cash acquired, $4.2 million for capitalization of internal-use software costs, $1.5 million for other investing activities, $2.7 million in capital expenditures to purchase computer equipment, furniture and fixtures and leasehold improvements, partially offset by $28.6 million of investment sales and maturities, net of purchases.

Investing activities used $35.3 million of cash in the six months ended June 30, 2020, consisting of $125.8 million of cash paid for the acquisition of DivvyCloud, net of cash acquired of $5.0 million, $4.0 million in capital expenditures to purchase leasehold improvements, furniture and fixtures and computer equipment and $2.9 million for capitalization of internal-use software costs, partially offset by $97.4 million of investment sales and maturities, net of purchases.

Financing Activities

Financing activities provided $322.7 million of cash in the six months ended June 30, 2021, which consisted primarily of $585.4 million in proceeds from the issuance of the 2027 Notes, net of issuance costs paid of $14.6 million, $4.5 million in proceeds from the issuance of common stock purchased by employees under the Rapid7, Inc. 2015 Employee Stock Purchase Plan (ESPP) and $2.5 million in proceeds from the exercise of stock options, partially offset by $184.6 million for the repurchase and conversion of the 2023 Notes, $76.0 million for the purchase of 2027 Capped Calls, $6.7 million in withholding taxes paid for the net share settlement of equity awards and $2.4 million for payments related to the acquisition of Alcide.

Financing activities provided $199.6 million of cash in the six months ended June 30, 2020, which consisted primarily of $223.5 million in proceeds from the issuance of the 2025 Notes, net of issuance costs paid of $6.5 million, $3.7 million in proceeds from the exercise of stock options and $3.3 million in proceeds from the issuance of common stock purchased by employees under the ESPP, partially offset by $27.3 million for the purchase of 2025 Capped Calls, $3.4 million in withholding taxes paid for the net share settlement of equity awards and $0.2 million of payments of debt issuance costs.

Contractual Obligations and Commitments

As of June 30, 2021, there were no material changes in our contractual obligations and commitments from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 26, 2021.

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.

Recent Accounting Pronouncements

See Note 1 in the notes to the unaudited consolidated financial statements for a discussion of recent accounting pronouncements.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (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. There have been no material changes in our critical accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 26, 2021.

Item 3. 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, Australia, Israel, Singapore and Japan. 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. The effect of a hypothetical 10% adverse change in foreign currency exchange rates on monetary assets and liabilities at June 30, 2021 would not have been material to our financial condition or results of operations. We enter into forward contracts designated as cash flow hedges to manage the foreign currency exchange rate risk associated with certain of our foreign currency denominated expenditures. The effectiveness of our existing hedging transactions and the availability and effectiveness of any hedging transactions we may decide to enter into in the future may be limited, and we may not be able to successfully hedge our exposure, which could adversely affect our financial condition and operating results. For further information, see Note 9, *Derivatives and Hedging Activities*, in the Notes to our Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. 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

As of June 30, 2021, we had cash and cash equivalents of $493.6 million consisting of bank deposits and money market funds and short- and long-term investments of $119.7 million consisting of commercial paper and corporate bonds. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

Our cash and cash equivalents and short- and long-term investments are subject to market risk due to changes in interest rates, which may affect our interest income and the fair value of our investments. Due in part to these factors, our future investment income may fluctuate due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our investments as available-for-sale securities, no gains or losses are recognized due to the changes in interest rates unless securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary.

The fair values of our convertible senior notes are subject to interest rate risk, market risk and other factors due to the conversion features of the notes. The fair values of the convertible senior notes may increase or decrease for various reasons, including fluctuations in the market price of our common stock, fluctuations in market interest rates and fluctuations in general economic conditions. The interest and market value changes affect the fair values of the convertible senior notes but does not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Based upon the quoted market price as of June 30, 2021, the fair values of our 2023 Notes, 2025 Notes and 2027 Notes were $102.7 million, $381.7 million and $665.6 million, respectively.

As of June 30, 2021, the effect of a hypothetical 10% increase or decrease in 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. 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 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended, 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.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operations of our disclosure controls and procedures as of June 30, 2021. Based on the evaluation of our disclosure controls and procedures as of June 30, 2021, 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.

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 Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

In October 2018, Finjan, Inc. (Finjan) filed a complaint against us and our wholly-owned subsidiary, Rapid7 LLC, in the United States District Court, District of Delaware, alleging patent infringement of seven patents held by them. In the complaint, Finjan sought unspecified damages, attorneys' fees and injunctive relief. We intend to vigorously contest Finjan's claims. The final outcome, including our liability, if any, with respect to Finjan's claims, is uncertain. 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.

In addition, from time to time, we are 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, financial condition or results of operations. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties including those described below. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Quarterly Report on Form 10-Q as well as our other public filings with the Securities and Exchange Commission, or the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 26, 2021. 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. Furthermore, the COVID-19 pandemic (including federal, state and local governmental responses, broad economic impacts and market disruptions) has heightened risks discussed in the risk factors described below. 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.

Summary of Risk Factors

Our business is subject to numerous risks and uncertainties which include, but are not limited to, the following:

- The ongoing COVID-19 pandemic could materially and adversely affect our business, results of operations and financial condition.
- 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.
- We are a rapidly growing company, which makes it difficult to evaluate our future operating and financial results and may increase the risk that we will not be successful.
- If we are unable to sustain our revenue growth rate, we may not achieve or maintain profitability in the future.
- Real or perceived failures, errors or defect in our solutions could adversely affect our brand and reputation, which could have an adverse effect on our business and results of operations.
- 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 business and growth depend substantially on customers renewing their subscriptions with us. Any decline in our customer renewals or failure to convince customers to expand their use of our subscription offerings could adversely affect our future operating results.
- If we or our third party service providers experience a security breach or unauthorized parties otherwise obtain access to our customers’ data, our reputation may be harmed, demand for our solutions may be reduced and we may incur significant liabilities.
- We face intense competition in our market.
- If we fail to manage our operations infrastructure, our customers may experience service outages and/or delays.
- A component of our growth strategy is dependent on our continued international expansion, which adds complexity to our operations.

- 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.
- 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.
- 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.
- If we are not able to maintain and enhance our brand, our business and operating results may be adversely affected.
- Failure to maintain high-quality customer support could have a material adverse effect on our business.
- 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.
- We rely on third-party software to operate certain functions of 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.
- Organizations may be reluctant to purchase our cloud-based offerings due to the actual or perceived vulnerability of cloud solutions.
- We may require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.
- 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.
- We have a significant amount of debt that may decrease our business flexibility, access to capital, and/or increase our borrowing costs, and we may still incur additional debt in the future, which may adversely affect our operations and financial results. We may not have sufficient cash flow from our business to pay our substantial debt when due.

The summary risk factors described above should be read together with the text of the full risk factors below and our unaudited consolidated financial statements and the related notes, as well as in other documents that we file with the U.S. Securities and Exchange Commission (SEC). The risks summarized above or described in full below are not the only risks that we face. Additional risks and uncertainties not precisely known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, results of operations, and future growth prospects.

Risks Related to Our Business and Industry

The ongoing COVID-19 pandemic could materially and adversely affect our business, results of operations and financial condition.

We are unable to accurately predict the full impact that the COVID-19 pandemic will have on our results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures. The implementation of measures to help contain the virus has impacted our day-to-day operations and could disrupt our business and operations, as well as that of our customers, partners, suppliers and others with whom we work, for an indefinite period of time. To support the health and well-being of our employees, customers, partners and communities, a vast majority of our employees began working remotely as of late March 2020, and they continue to do so. In addition, many of our customers and prospective customers are working remotely. The disruptions to our operations caused by the COVID-19 pandemic may result in inefficiencies, delays and additional costs in our sales and marketing, professional service and research and development efforts, which cannot be predicted or quantified at this time. To the extent that disruptions occur, we may not be able to fully mitigate any such inefficiencies, delays and additional costs through remote or other alternative work arrangements. In addition, given the economic uncertainty created by COVID-19, we have and may continue to see delays in our sales cycle, failures of customers to renew at all or to renew the anticipated scope their subscriptions with us, requests from customers for payment term deferrals as well as pricing or bundling concessions, which, if significant, could materially and adversely affect our business, results of operations and financial condition.

Negative conditions in the general economy both in the United States and abroad, including conditions resulting from the COVID-19 pandemic, changes in gross domestic product growth, financial and credit market fluctuations, energy costs, international trade relations and other geopolitical issues, the availability and cost of credit and the global housing and mortgage markets could cause a decrease in consumer discretionary spending and business investment and diminish growth expectations in the U.S. economy and abroad. More generally, the COVID-19 pandemic continues to present the possibility of an extended global economic downturn and has caused volatility in financial markets, which could materially and adversely affect demand for our products and professional services and could materially and adversely impact our results and financial condition even after the pandemic is contained. For example, we may be unable to collect receivables from those customers significantly impacted by COVID-19, which may be more pronounced in industry verticals more directly impacted by the COVID-19 pandemic. Also, a decrease in subscriptions and/or renewals in a given period could negatively affect our ARR as well as our revenues in future periods, particularly if experienced on a sustained basis, because a substantial proportion of our software subscriptions yield revenue recognized over time. The pandemic may also have the effect of heightening many of the other risks described in this “Risk Factors” section, including risks associated with our guidance, our customers, our potential customers, our market opportunity, renewals and sales cycle, among others. We will continue to evaluate the nature and extent of the impact of the COVID-19 pandemic on our business.

Although we expect that current cash and cash equivalent balances, including the proceeds of our convertible senior notes offering in March 2021, together with cash flows that are generated from operations and availability under our revolving credit facility, will be sufficient to meet our domestic and international working capital needs and other capital and liquidity requirements for at least the next 12 months, if our access to capital is restricted or our borrowing costs increase, our operations and financial condition could be adversely impacted.

The full extent of the COVID-19 pandemic’s impact on our operations and financial performance depends on future developments that are uncertain and unpredictable, including the ultimate duration, spread and reemergence of the pandemic, its impact on capital and financial markets, the timing of economic recovery and any new information that may emerge concerning the severity of the virus, its spread to or reemergence in other geographic regions as well as the actions taken to contain it, including the distribution and acceptance of vaccines, among others. Any of these impacts could have a material adverse impact on our business, results of operations and financial condition and ability to execute and capitalize on our strategies. Due to the current uncertainty regarding the severity and duration of the COVID-19 pandemic, we cannot predict whether our response to date or the actions we may take in the future will be effective in mitigating the effects of COVID-19 pandemic on our business, results of operations or financial condition. Accordingly, we are unable at this time to predict the impact of the COVID-19 pandemic on our operations, liquidity, and financial results, and, depending on the magnitude and duration of the COVID-19 pandemic, such impact may be material.

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, ARR, 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:

- business disruptions in regions affecting our operations, stemming from actual, imminent or perceived outbreak or reemergence of contagious disease, including the COVID-19 pandemic;
- 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 or professional services;
- the mix of our products, as well as professional services, sold during a period;
- the ability to successfully grow our sales of our cloud-based solutions;
- 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;
- 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;
- 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;
- price competition;

- our ability to successfully manage and integrate any acquired businesses, including, Alcide.IO Ltd. (Alcide) and IntSights Cyber Intelligence Ltd. (IntSights), and 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 United Kingdom's exit from the European Union, commonly referred to as “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;
- the cost or results of existing or 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.

Fluctuations in our quarterly operating results, key metrics, non-GAAP metrics and the price of our common stock may be particularly pronounced in the current economic environment due to the uncertainty caused by and the unprecedented nature of the current COVID-19 pandemic. 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.

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

We are a rapidly growing company. Our ability to forecast our future operating and financial 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, 2016 to the year ended December 31, 2020, our revenue grew from $157.4 million to $411.5 million. Although we have experienced rapid growth historically and currently have high renewal rates, 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;
- 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 and renew subscriptions to our cloud-based solutions, content subscriptions, maintenance and support and managed services;
- continue to successfully expand our business domestically and internationally;
- continue to effectively grow and improve the productivity of our sales teams; 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 $98.8 million, $53.8 million and $55.5 million in the years ended December 31, 2020, 2019 and 2018, respectively. As of June 30, 2021, we had an accumulated deficit of $653.7 million. While we have experienced significant revenue growth in recent periods, we may not 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 continued expansion of our sales organization, both domestically and internationally;
- continued international expansion of our business;
- strategic acquisitions and expansion of our partner ecosystem; 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.

Our business and growth depend substantially on customers renewing their subscriptions with us. Any decline in our customer renewals or failure to convince customers to expand their use of our subscription offerings could adversely affect our future operating results.

Our subscription offerings are sold on a term basis. In order for us to improve our operating results, it is important that our existing customers renew their subscriptions with us when the existing subscription term expires, and renew on the same or more favorable terms. Our customers have no obligation to renew their subscriptions with us and we may not be able to accurately predict customer renewal rates. 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, including due to the global economic uncertainty and financial market conditions caused by the COVID-19 pandemic, competitive offerings, our customers' perception of their exposure, or alterations or reductions in their 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.

Our future growth is also affected by our ability to sell additional offerings to our existing customers, which depends on a number of factors, including customers’ satisfaction with our products and services and general economic conditions. If our efforts to cross-sell and upsell to our customers are unsuccessful, the rate at which our business grows might decline.

If our new and existing product offerings and product enhancements do not achieve sufficient market acceptance, our financial results and competitive position will suffer.

Our business substantially depends on, and we expect our business to continue to substantially depend on, sales of our Insight Platform solutions. As such, market acceptance of our Insight Platform is critical to our continued success. Demand for Insight Platform solutions are affected by a number of factors beyond our control, including continued market acceptance of cloud-based offerings, the timing of development and release of new products by our competitors, technological change, and growth or contraction in our market and the economy in general. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of our Insight Platform solutions, our business operations, financial results and growth prospects will be materially and adversely affected.

We spend substantial amounts of time and money to research and develop or acquire new offerings and enhanced versions of our existing offerings to incorporate additional features, improve functionality or other enhancements in order to meet our customers’ rapidly evolving demands. In addition, we continue to invest in solutions that can be deployed on top of our platform to target specific use cases and to cultivate our community. When we develop a new or enhanced version of an existing offering, we typically incur expenses and expend resources upfront to market, promote and sell the new offering. Therefore, when we develop or acquire new or enhanced offerings, their introduction must achieve high levels of market acceptance in order to justify the amount of our investment in developing and bringing them to market. For example, if our recent product expansions and offerings, such as our Cloud Security offerings, do not garner widespread market adoption and implementation, our financial results and competitive position could suffer.

Further, we may make changes to our offerings that our customers do not like, find useful or agree with. We may also discontinue certain features, begin to charge for certain features that are currently free or increase fees for any of our features or usage of our offerings.

Our new and existing offerings or product enhancements and changes to our existing offerings could fail to attain sufficient market acceptance for many reasons, including:

- our failure to predict market demand accurately in terms of product functionality and to supply offerings that meet this demand in a timely fashion, including changes in demand as a result of the COVID-19 pandemic;
- real or perceived defect, errors or failures;
- negative publicity about their performance or effectiveness;
- delays in releasing to the market our new offerings or enhancements to our existing offerings;
- introduction or anticipated introduction of competing products by our competitors;
- inability to scale and perform to meet customer demands;
- poor business conditions for our customers, causing them to delay IT purchases, including as a result of the COVID-19 pandemic; and
- reluctance of customers to purchase cloud-based offerings.

If our new or existing offerings or enhancements and changes do not achieve adequate acceptance in the market, our competitive position will be impaired, and our revenue, business and financial results will be negatively impacted. The adverse effect on our financial results may be particularly acute because of the significant research, development, marketing, sales and other expenses we will have incurred in connection with the new offerings or enhancements.

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 in Vulnerability Risk Management include Qualys and Tenable; in Incident Detection and Response (SIEM) include Splunk, Micro Focus, LogRhythm and Microsoft (Sentinel); in Application Security include Micro Focus and IBM; in Security Orchestration and Automation Response include Phantom (Splunk) and Demisto (Palo Alto Networks); in Cloud Security include Prisma (Palo Alto Networks) and CloudGuard (Check Point Software Technologies) and finally, while the competition in our professional services business is diverse, our competitors include FireEye's Mandiant, SecureWorks and NCC Group.

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 spending by customers, 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.

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.

To date, we have derived a 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 majority of our revenue from customers using certain of our vulnerability management offerings (VM), InsightVM, Nexpose and Metasploit. Greater than half of our revenue was attributable to InsightVM, 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;
- our inability to release enhanced versions of our vulnerability management offerings on a timely basis in response to the dynamic threat landscape; and
- a decline in overall IT spending due to the global economic uncertainty and financial market conditions caused by the COVID-19 pandemic.

Our inability to renew or increase sales of our vulnerability management offerings, including cloud-based subscriptions, content subscriptions, managed services and content and maintenance and support subscriptions, 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 non-VM subscription products, including InsightIDR, InsightAppSec, InsightConnect and DivvyCloud. These products are relatively new, and it is uncertain whether they will gain the market acceptance we expect. Any factor adversely affecting sales of our non-VM 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.

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.

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 six months ended June 30, 2021 and 2020, operations located outside of North America generated 18% and 17%, respectively, of our revenue. 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 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;
- increased exposure to natural disasters, acts of war, terrorism, epidemics, or pandemics and other health crises, including the ongoing COVID-19 pandemic; 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. 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. In particular, although the United Kingdom enacted a Data Protection Act in May 2018 that is consistent with the EU General Data Protection Regulation, uncertainty remains regarding how data transfers to the United Kingdom will be regulated. Any of these effects of Brexit, among others, could adversely affect our operations in the United Kingdom and our financial results.

We recognize a significant percentage 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 a significant percentage of our revenue ratably over the various terms of our agreements with customers. 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 applicable term.

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.

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.

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. We also may not find suitable acquisition candidates, and acquisitions we complete may be unsuccessful.

Achieving the anticipated benefits of past or 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, or as new features within our existing offerings. For example, on January 28, 2021 we acquired Alcide.IO Ltd. (Alcide), a Kubernetes cloud workload protection platform and on July 16, 2021, we acquired IntSights, a provider of contextualized external threat intelligence and proactive threat remediation. Some of our acquisitions could improve the capabilities of our existing offerings or platform, as opposed to becoming a new offering. The acquisitions of Alcide and IntSights are intended to extend the cloud security capabilities of our Insight Platform, helping security and DevOps teams understand and manage governance, risk and security in their growing cloud environments, which may encounter difficulties or unforeseen expenditures. The integration of Alcide and IntSights and any other 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 and business operations and internal systems. We may need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked sufficiently effective controls, procedures and policies. 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. If we are unable to effectively execute or integrate acquisitions, the anticipated benefits of such acquisition, including sales or growth opportunities or targeted synergies may not be realized, and 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.

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 key metrics, including ARR. In developing this guidance, our management must make certain assumptions and judgments about our future performance. Some of those key assumptions relate to the impact of the COVID-19 pandemic and the associated economic uncertainty on our business and the timing and scope of economic recovery globally, which are inherently difficult to predict. While presented with numerical specificity, this guidance is necessarily speculative in nature, and is inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and are based upon specific assumptions with respect to future business decisions or economic conditions, some of which may change. This guidance, which inherently consists of forward-looking statements, is also qualified by, and subject to, assumptions, estimates and expectations as of the date given. Forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements including the risks described in this Risk Factors section and in the Risk Factors section of any future SEC filings we make. It can be expected that some or all of the assumptions, estimates and expectations of any guidance we furnished will not materialize or will vary significantly from actual results. Accordingly, our guidance is only an estimate of what management believes is realizable as of the date of release of such guidance.

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 projections or that consensus due to a number of factors, many of which are outside of our control, including due to the global economic uncertainty and financial market conditions caused by the COVID-19 pandemic and which could adversely affect our operations and operating results. There are no comparable recent events that provide guidance as to the probable effect of the COVID-19 pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change. We are relying on the reports and models of economic and medical experts in making assumptions relating to the duration of this crisis and predictions as to timing and pace of any future economic recovery. If these models are incorrect or incomplete, or if we fail to accurately predict the full impact that the COVID-19 pandemic will have on all aspects of our business, the guidance and other forward-looking statements provided may also be incorrect or incomplete. 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 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 the years ended December 31, 2020, 2019 and 2018, we derived approximately 47%, 43%, and 39%, respectively, 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 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 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 employed on an at-will basis, which means that they could terminate their employment with us at any time. Further, members of our management and other key personnel in critical functions across our organization may be unable to perform their duties or have limited availability due to COVID-19. The temporary or permanent loss of the services of our senior management, particularly Mr. Thomas, or other key employees for any reason could significantly delay or prevent the achievement of our development and strategic objectives and harm our business, financial condition and results of operations.

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, customer relationship management and human resource management. If we experience difficulties in implementing new software or 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, the GNU Lesser General Public License, 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 (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.

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 (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, 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.

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 six months ended June 30, 2021 and 2020 we incurred 16%, and 12%, respectively, 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 six months ended June 30, 2021 and 2020, 9% and 8%, respectively, 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 in recent years and may fluctuate substantially in the future. Furthermore, a strengthening of the U.S. dollar could increase the cost in local currency of our products and services to customers outside the United States, which could adversely affect our business, results of operations, financial condition and cash flows. We implemented a hedging program during 2020 and have entered into forward contracts designated as cash flow hedges in order to mitigate our exposure to foreign currency fluctuations resulting from certain operating expenses denominated in certain foreign currencies. These forward contracts and other hedging strategies such as options and foreign exchange swaps related to transaction exposures that we may implement to mitigate this risk in the future 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 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. 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. For example, while the potential impact and duration of the COVID-19 pandemic on the global economy and our business in particular may be difficult to assess or predict, the pandemic has resulted in, and may continue to result in significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. Although we expect that current cash and cash equivalent balances and cash flows that are generated from operations will be sufficient to meet our domestic and international working capital needs and other capital and liquidity requirements for at least the next 12 months, if we are unable to obtain adequate financing or financing on terms satisfactory to us if and 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 Intellectual Property, Litigation and Government Regulation

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

Our 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. While we have copyrights in our software, we do not typically register such copyrights with the Copyright Office. This failure to register the copyrights in our software may preclude us from obtaining statutory damages for infringement under certain circumstances. 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 result in impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect and enforce our intellectual property rights could negatively affect our brand and adversely impact 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. Many of these companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights. 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 and we are currently involved in legal proceedings with Finjan, Inc., which has filed a complaint against us and our wholly-owned subsidiary, Rapid7 LLC, in the United States District Court, District of Delaware, alleging patent infringement. Third parties may also assert 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.

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. Although we take precautions to prevent our products from being provided in violation of these laws, our products could be provided inadvertently in violation of such laws, despite the precautions we take. 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.

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

As of December 31, 2020, we had federal and state net operating loss carryforwards (NOLs), of $376.7 million and $290.2 million, respectively, available to offset future taxable income, which expire in various years beginning in 2021 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 (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-percentage point ownership change over a three-year testing period. Based upon our historical analysis, we determined that although a 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.

We could be subject to additional tax liabilities.

We are subject to U.S. federal, state, local and sales taxes in the United States and foreign income taxes, withholding taxes and transaction taxes in numerous foreign jurisdictions. 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. Our intercompany relationships are and will continue to be subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. Significant judgment is required in evaluating our tax positions and our worldwide provision for taxes. During the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain and the relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. 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 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. We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes, sales taxes and value-added taxes against us. 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 for which a determination is made.

Risks Related to Data Privacy and Cybersecurity

Real or perceived failures, errors or defects in our solutions could adversely affect our brand and reputation, 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 and threats, especially in light of the rapidly changing security landscape to which we must respond, including the constantly evolving techniques used by attackers to access or sabotage data. If we fail to update our solutions in a timely or effective manner to respond to these threats, our customers could experience security breaches. Many federal, state and foreign governments have enacted laws requiring companies to notify individuals of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, and any association of us with such publicity may cause our customers to lose confidence in the effectiveness of our solutions. An actual or perceived security breach or theft of 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.

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. 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 from these third parties is inaccurate or malicious, the potential for false indications of security vulnerabilities and susceptibility to attack 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. 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.

Our products may also contain undetected errors or defects. Errors or defects may be more likely when a product is first introduced or as new versions are released, or when we introduce an acquired company's products. We have experienced these errors or defects in the past in connection with new products, acquired products and product upgrades and we expect that these errors or defects will be found from time to time in the future in new, acquired or enhanced products after commercial release. Defects may cause our products to be vulnerable to attacks, cause them to fail to detect vulnerabilities or threats, or temporarily interrupt customers' networking traffic. Any errors, defects, disruptions in service or other performance problems with our products may damage our customers' businesses and could hurt our reputation. If our products or professional services fail to detect vulnerabilities or threats 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. Limitation of liability provisions in our standard terms and conditions and our other agreements may not adequately or effectively protect us from any claims related to errors or defects in our solutions, including as a result of federal, state or local laws or ordinances or unfavorable judicial decisions in the United States or other countries.

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 North America, Europe, Australia and Asia, in addition to operating and maintaining certain elements of our own network infrastructure. Some elements of our complex infrastructure 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 cloud-based products, are hosted on cloud providers such as 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 or third-party systems on which we rely 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 additional costs or downtime or delays 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 or our third party service providers experience a security breach or unauthorized parties otherwise obtain access to our customers' data, our reputation may be harmed, demand for our solutions may be reduced and we may incur significant liabilities.

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. In addition, with so many of our employees now working remotely due to the global COVID-19 pandemic, we may face an increased risk of attempted security breaches and incidents.

Also, since many of our customers continue to working remotely, we expect there will continue to be an increased amount of personal, confidential and proprietary information that is stored in our solutions, which increases the exposure and risk of cyberattacks and other malicious internet-based activity. While we have taken steps to protect such information that we have access to, including information we may obtain through our customer support services or customer usage of our offerings, our security measures or those of our third-party service providers could be breached or otherwise fail to prevent unauthorized access to or disclosure, modification, misuse, loss or destruction of such information. Computer malware, viruses, social engineering (phishing attacks), and increasingly sophisticated network attacks have become more prevalent in our industry, particularly against cloud services. Further, if our systems or those of our third-party service providers are breached as a result of third-party action, employee error or misconduct, 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.

We also process, store and transmit our own data as part of our business and operations. This data may include personal, confidential or proprietary information. We make use of third-party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support, credit card processing, human resources services, customer relationship management, enterprise risk planning and other functions. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches and incidents, and to reduce the impact of a security breach or incident at a third-party vendor, such measures cannot provide absolute security. There can be no assurance that any security measures that we or our third-party service providers have implemented will be effective against current or future security threats. While we maintain measures designed to protect the integrity, confidentiality and security of our data, our security measures could fail and those of our third-party service providers have failed and could fail, any of which could result in unauthorized access to or disclosure, modification, misuse, loss or destruction of such data.

Any security breach or other security incident, or the perception that one has occurred, could result in a loss of customer confidence in the security of our offerings and damage to our brand, reduce the demand for our offerings, disrupt normal business operations, require us to spend material resources to investigate or correct the breach and to prevent future security breaches and incidents, expose us to legal liabilities, including litigation, regulatory enforcement, and indemnity obligations, and adversely affect our revenues and operating results. These risks may increase as we continue to grow the number and scale of our cloud services, and process, store, and transmit increasing amounts of data.

Additionally, we cannot be certain that our insurance coverage will be adequate for data security liabilities actually incurred, that insurance will cover any indemnification claims against us relating to any incident, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

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.

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, the Health Insurance Portability and Accountability Act of 1996 (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. In June 2018, California enacted the California Consumer Privacy Act (CCPA), which took effect on January 1, 2020. The CCPA requires a broad range of companies that do business in California to honor the requests of California residents to access and require deletion of their personal information, opt out of certain personal information sharing and receive detailed information about how their personal information is used and shared. The CCPA provides for civil penalties of up to $7,500 for violations, and a private right of action for data breaches that allows private plaintiffs to seek the greater of actual damages or statutory damages of up to $750 per affected consumer per data breach. These statutory remedies are expected to prompt an increase in data breach litigation and the cost to resolve it. The CCPA has prompted a number of proposals for new federal and state privacy legislation in the United States that, if passed, could increase our potential liability, increase our compliance costs and adversely affect our business.

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 European Union's General Data Protection Regulation, (EU) 2016/679 (GDPR), laws implemented by European Union (EU) member states which contain derogations from, or exemptions or authorizations for the purposes of, the GDPR, or which are otherwise intended to supplement the GDPR and, following the withdrawal of the United Kingdom (UK) from the EU on January 31, 2020 and the expiry of the transitional arrangements agreed to between the UK and EU on December 31, 2020, the so-called ‘UK GDPR’ (i.e., the GDPR as it continues to form part of UK law by virtue of section 3 of the European Union (Withdrawal) Act 2018, as amended (including by the various Data Protection, Privacy and Electronic Communications (Amendments etc.) (EU Exit) Regulations) (European Data Protection Laws). The European Data Protection Laws present significantly greater risks, compliance burdens and costs for companies with users and operations in the EU and UK. 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 and similar levels of fines could also be imposed under the UK GDPR.

The European Data Protection Laws are broad in their application and apply when we do business with EU- and UK-based customers and when our U.S.-based customers collect and use personal data that originates from individuals resident in the EU and UK. They also apply to transfers of personal data between us and our EU- and UK-based subsidiaries, including employee information. Further, many U.S. federal and state and other foreign government bodies and agencies have introduced, and are currently considering, additional laws and regulations. Non-compliance with these laws could result in penalties or significant legal liability. We could be adversely affected if legislation or regulations are expanded to require changes in our business practices or if governing jurisdictions interpret or implement their legislation or regulations in ways that negatively affect our business, results of operations or financial condition.

European Data Protection Laws generally prohibit the transfer of personal data from the European Economic Area (EEA), the UK and Switzerland (Europe), to the United States and most other countries unless the parties to the transfer have implemented specific safeguards to protect the transferred personal data. One of the primary safeguards used for transfers of personal data from Europe to the United States was the Privacy Shield framework which is administered by the U.S. Department of Commerce. To facilitate the transfer of both customer and employee personal data from Europe to the United States, we self-certified under the EU-US Privacy Shield framework on December 20, 2016. However, this framework was invalidated by a decision of the EU’s highest court in July 2020 and authorities in the UK and Switzerland have similarly invalidated use of the

Privacy Shield as a vehicle for lawful data transfers from those countries to the United States. The same decision also required parties using one of the primary alternatives to the Privacy Shield, namely, the European Commission's Standard Contractual Clauses (SCCs), to lawfully transfer personal data from Europe to the United States and most other countries, to adopt additional safeguards to protect personal data being transferred. At present, there are few if any viable alternatives to the SCCs. As such, our transfer and processing of personal data from Europe may not comply with European Data Protection Law. This may increase our exposure to the GDPR's and UK GDPR's heightened sanctions for violations of its cross-border data transfer restrictions, including injunctions against transferring personal data subject to the GDPR and UK GDPR. This may also reduce demand for our services from companies subject to European Data Protection Laws. Loss of our ability to import personal data from the EU and UK may also require us to increase our data processing capabilities in the EEA at significant expense.

Although by virtue of the UK GDPR, the GDPR applies in the UK in substantially unvaried form, going forward there will be increasing scope for divergence in application, interpretation and enforcement between the UK and the EU. On June 28, 2021 the European Commission adopted an adequacy decision in respect of the UK allowing transfers of personal data to the UK from EU member states for a period of four years.

Additionally, other countries outside of Europe have enacted or are considering enacting similar cross-border data transfer restrictions and laws requiring local data residency, which could increase the cost and complexity of delivering our services and operating our business. 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.

Organizations may be reluctant to purchase our cloud-based offerings 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 InsightVM, InsightIDR, InsightAppSec, InsightConnect and DivvyCloud, 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 as a whole may be negatively impacted, which could harm our business.

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 $117.13 through July 31, 2021. 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 our projected operating and financial results;

- changes in the prices of our products and professional services;
- 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 or investigations by regulators;
- our sale of our common stock or other securities in the future;
- changes in our board of directors, senior management or key personnel;
- trading volume of our common stock;
- price and volume fluctuations in the overall stock market;
- changes in the anticipated future size and growth rate of our market;
- sales of shares of our common stock by us or our stockholders, including sales and purchases of any common stock issued upon conversion of our convertible senior notes; and
- general economic, regulatory and market conditions.

Recently, the stock markets, and in particular the market on which our common stock is listed, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies due to, among other factors, the actions of market participants or other actions outside of our control, including general market volatility caused by the COVID-19 pandemic. 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.

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 depends, 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.

Future sales of our common stock or equity-linked securities in the public market could lower the market price for our common stock and adversely impact the trading price of the Notes.

In the future, we may sell additional shares of our common stock or equity-linked securities to raise capital. In addition, a substantial number of shares of our common stock is reserved for issuance upon the exercise of stock options, settlement of other equity incentive awards and upon conversion of the Notes. The indentures for the Notes do not restrict our ability to issue additional common stock or equity-linked securities in the future. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. The issuance and sale of substantial amounts of common stock or equity-linked securities, or the perception that such issuances and sales may occur, could adversely affect the trading price of the Notes and the market price of our common stock and impair our ability to raise capital through the sale of additional equity or equity-linked securities.

Risks Related to our Indebtedness

We have a significant amount of debt that may decrease our business flexibility, access to capital, and/or increase our borrowing costs, and we may still incur additional debt in the future, which may adversely affect our operations and financial results. We may not have sufficient cash flow from our business to pay our substantial debt when due.

In August 2018, we issued $230.0 million aggregate principal amount of the 2023 Notes, in May 2020, we issued $230.0 million aggregate principal amount of 2025 Notes and in March 2021, we issued $600.0 million aggregate principal amount of 2027 Notes (collectively, the Notes). In March 2021, concurrently with the issuance of the 2027 Notes, we used $182.6 million of the proceeds from the issuance of the 2027 Notes to repurchase and retire $182.6 million aggregate principal amount of the 2023 Notes. In addition, we may also incur indebtedness under our senior secured credit facility. Our indebtedness may:

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

Further, the indentures governing the Notes do not restrict our ability to incur additional indebtedness, secure existing or future debt, recapitalize our existing or future debt or take a number of other actions that could intensify the risks discussed above and below. Further, we and our subsidiaries may incur substantial additional indebtedness in the future, subject to the restrictions contained in our senior secured credit facility and any future debt instruments existing at the time, some of which may be secured indebtedness. While our senior secured credit facility restricts our ability to incur additional indebtedness, if our senior secured credit facility is terminated, we may not be subject to such restriction under the terms of such indebtedness.

Our ability to pay our debt when due or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. In addition, any required repurchase of the Notes for cash as a result of a fundamental change or voluntary redemption (in each case, pursuant to the terms of the Notes) would lower our current cash on hand such that we would not have that cash available to fund operations. If we are unable to generate sufficient cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring our debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

In addition, our senior secured credit facility contains, and any future additional indebtedness that we may incur may contain, financial and other restrictive covenants that limit our ability to operate our business, raise capital, pay dividends and/or make payments under our other indebtedness. If we fail to comply with these covenants or to make payments under our indebtedness when due, then we would be in default under that indebtedness, which could, in turn, result in that and our other indebtedness becoming immediately payable in full. Any such event of default under our senior secured credit facility would give the lenders the right to terminate their commitments to provide additional loans under our senior secured credit facility and to declare any and all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, the lenders under our senior secured credit facility would have the right to proceed against the collateral in which we granted a security interest to them, which consists of substantially all our assets. If the debt under our senior secured credit facility were to be accelerated, we may not have sufficient cash or be able to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, which could immediately materially and adversely affect our cash flows, business, results of operations, financial condition and our ability to make payments under our indebtedness, including the Notes, when due. Further, the terms of any new or additional financing may be on terms that are more restrictive or on terms that are less desirable to us.

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

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert their Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation in cash, which could adversely affect our liquidity. As disclosed in Note 10 to our unaudited consolidated financial statements, the conditional conversion features of the 2023 Notes and the 2025 Notes were triggered as of June 30, 2021, and the 2023 Notes and 2025 Notes are convertible at the option of the holders, in whole or in part, between July 1, 2021 and September 30, 2021. During the first quarter of 2021, an immaterial principal amount of the 2023 Notes was requested for conversion, which was settled during the quarter ended June 30, 2021. In addition, from July 1, 2021 to the date of this filing, we have not received any additional conversion requests for the 2023 Notes or the 2025 Notes. Whether the 2023 Notes or the 2025 Notes will be convertible following such fiscal quarter will depend on the continued satisfaction of this condition or another conversion condition in the future. As of June 30, 2021, the 2027 Notes are not convertible at the option of the holder. In addition, even if holders of Notes do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The phaseout of LIBOR, or the replacement of LIBOR with a different reference rate, may adversely affect interest rates.

On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it would phase out LIBOR by the end of 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021, or if alternative rates or benchmarks will be adopted. Changes in the method of calculating LIBOR, or the replacement of LIBOR with an alternative rate or benchmark, may adversely affect interest rates and result in higher borrowing costs. This could materially and adversely affect our results of operations, cash flows and liquidity. We cannot predict the effect of the potential changes to LIBOR or the establishment and use of alternative rates or benchmarks. We may need to renegotiate our senior secured credit facility or incur other indebtedness, and changes in the method of calculating LIBOR, or the use of an alternative rate or benchmark, may negatively impact the terms of such indebtedness. If changes are made to the method of calculating LIBOR or LIBOR ceases to exist, we may need to amend certain contracts, including our senior secured credit facility, and we cannot predict what alternative rate or benchmark would be negotiated. This may result in an increase to our interest expense.

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

In connection with the pricing of the Notes and the exercise by the initial purchasers of their option to purchase additional Notes, we entered into capped call transactions with certain counterparties (Capped Calls). The Capped Calls cover, subject to customary adjustments, the number of shares of our common stock initially underlying the Notes. The Capped Calls are expected to offset the potential dilution as a result of conversion of the Notes. In connection with establishing their initial hedge of the capped call transactions, the counterparties or their respective affiliates entered into various derivative transactions with respect to our common stock concurrently with or shortly after the pricings of the Notes, including with certain investors in the Notes. The counterparties and/or or their respective affiliates may modify or unwind their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so on each exercise date of the capped call transactions, which are scheduled to occur during the applicable observation period relating to any conversion of the 2023 Notes on or after February 1, 2023, relating to any conversion of the 2025 Notes on or after November 1, 2024 or relating to any conversion of the 2027 Notes on or after December 15, 2026, in each case that is not in connection with a redemption). We cannot make any prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the prices of the Notes or the shares of our common stock. Any of these activities could adversely affect the value of the Notes and our common stock.

We are subject to counterparty risk with respect to the capped call transactions.

The option counterparties are financial institutions, and we will be subject to the risk that one or more of the option counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the Capped Calls. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. Recent global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under such transaction. Our exposure will depend on many factors but, generally, our exposure will increase if the market price or the volatility of our common stock increases. In addition, upon a default or other failure to perform, or a termination of obligations, by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the option counterparties.

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

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

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

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

The conversion of some or all of the Notes will dilute the ownership interests of existing stockholders to the extent we deliver shares of our common stock upon conversion of any of the Notes. As disclosed in Note 10 to our consolidated financial statements, the conditional conversion features of the 2023 Notes and the 2025 Notes were triggered as of June 30, 2021, and the 2023 Notes and the 2025 Notes are convertible at the option of the holders, in whole or in part, between July 1, 2021 and September 30, 2021. Whether the 2023 Notes and the 2025 Notes will be convertible following such fiscal quarter will depend on the continued satisfaction of this condition or another conversion condition in the future. As of June 30, 2021, the 2027 Notes are not convertible at the option of the holder. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could be used to satisfy short positions, or anticipated conversion of the Notes into shares of our common stock could depress the price of our common stock.

General Risks

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.

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

A significant public health crisis, epidemic or pandemic (including the ongoing COVID-19 pandemic), or a 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, public health crises or 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 public health crisis, 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.

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 have been and are required, pursuant to Section 404 of the Sarbanes-Oxley Act (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 is also required, pursuant to Section 404, to report annually on the effectiveness of our internal control over financial reporting. This assessment is required to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. For future reporting periods, 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.

If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion that our internal controls over financial reporting are effective, investors could lose confidence in the accuracy and completeness of our financial reports, which could cause the price of our common stock to decline, and we could be subject to sanctions or investigations by regulatory authorities, including the SEC and Nasdaq. Failure to remediate any material weakness in our internal control over financial reporting, or to 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 elected prior to our 2021 annual meeting serving three-year staggered terms;
- prior to June 30, 2022 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 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 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) Recent Sales of Unregistered Equity Securities

None.

(b) Use of Proceeds from Initial Public Offering of Common Stock

None.

(c) Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Rapid7, Inc. (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).
3.2	Amended and Restated Bylaws of Rapid7, Inc. (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).
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	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data file (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

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.

SIGNATURES

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

RAPID7, INC.

Date: August 5, 2021	By:	/s/ Corey E. Thomas
		Name: Corey E. Thomas
		Title: Chief Executive Officer
		(Principal Executive Officer)
Date: August 5, 2021	By:	/s/ Jeff Kalowski
		Name: Jeff Kalowski
		Title: Chief Financial Officer
		(Principal Financial Officer and Principal Accounting Officer)

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 Quarterly Report on Form 10-Q 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2021

By: /s/ Corey E. Thomas
Name: Corey E. Thomas
Title: 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 Quarterly Report on Form 10-Q 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 and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: August 5, 2021

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 Quarterly Report on Form 10-Q of Rapid7, Inc. for the quarter ended June 30, 2021 (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. for the period presented herein.

Date: August 5, 2021	By:	/s/ Corey E. Thomas
		Name: Corey E. Thomas
		Title: 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 Quarterly Report on Form 10-Q of Rapid7, Inc. for the quarter ended June 30, 2021 (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. for the period presented herein.

Date: August 5, 2021

By: /s/ Jeff Kalowski
Name: Jeff Kalowski
Title: Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)