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

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): November 5, 2019

Rapid7, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-37496
(Commission
File Number)

35-2423994
(IRS Employer
Identification No.)

120 Causeway Street, Boston, Massachusetts
(Address of principal executive offices)

02114
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 is an emerging growth company as defined in as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 2.02 Results of Operations and Financial Condition.

On November 5, 2019, Rapid7, Inc. (the “*Company*”) issued a press release announcing its financial results for the fiscal quarter ended September 30, 2019. The Company’s press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information included in this Item 2.02 and in the accompanying Exhibit 99.1 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit No.	Description
99.1	Press Release, dated as of November 5, 2019.
104	Cover Page Interactive Data File (embedded within the inline XBRL document)

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 hereunto duly authorized.

Rapid7, Inc.

Dated: November 5, 2019

By: /s/ Jeff Kalowski
Jeff Kalowski
Chief Financial Officer

Rapid7 Announces Third Quarter 2019 Financial Results

- Annualized recurring revenue (ARR) of \$310.2 million, an increase of 43% year-over-year
- Revenue of \$83.2 million, 33% year-over-year growth and customer growth of 17% year-over-year
- Raising 2019 revenue growth guidance to 32% to 33%
- Raising 2019 non-GAAP operating income guidance to \$0 to \$1 million

Boston, MA – November 5, 2019 – Rapid7, Inc. (Nasdaq: RPD), a leading provider of security analytics and automation, today announced its financial results for the third quarter of 2019.

"Rapid7 had a great third quarter. Our results reflect a good demand environment, great expense control and excellent execution across the board. With a strong focus on product innovation and a well-diversified product portfolio, we see a large opportunity in front of us and are well positioned for future growth. As a result, we are raising our total revenue and non-GAAP operating income guidance for the full-year 2019," said Corey Thomas, Chairman and CEO of Rapid7.

Third Quarter 2019 Financial Results and Other Metrics

	Three Months Ended September 30,		
	2019	2018	% Change
	(dollars in thousands)		
Annualized recurring revenue	\$ 310,184	\$ 217,415	43%
Number of customers	8,625	7,399	17%
ARR per customer	\$ 36.0	\$ 29.4	22%
Recurring revenue as a percentage of total revenue	88%	82%	
Renewal rate*	111%	118%	

*For the three months ended September 30, 2018, our renewal rate was adjusted from 120%, as previously disclosed, to 118% based on a reclassification of certain upsells and cross-sells.



	Three Months Ended September 30,		
	2019	2018	% Change
	(in thousands, except per share data)		
Products revenue	\$ 67,298	\$ 43,829	54 %
Maintenance and support revenue	9,178	10,614	(14)%
Professional services revenue	6,679	7,922	(16)%
Total revenue	\$ 83,155	\$ 62,365	33 %
North America revenue	\$ 69,883	\$ 53,232	31 %
Rest of world revenue	13,272	9,133	45 %
Total revenue	\$ 83,155	\$ 62,365	
GAAP gross profit	\$ 59,525	\$ 44,555	
GAAP gross margin	72 %	71 %	
Non-GAAP gross profit	\$ 61,865	\$ 45,934	
Non-GAAP gross margin	74 %	74 %	
GAAP loss from operations	\$ (11,756)	\$ (11,301)	
GAAP operating margin	(14)%	(18)%	
Non-GAAP income (loss) from operations	\$ 542	\$ (2,822)	
Non-GAAP operating margin	1 %	(5)%	
GAAP net loss	\$ (14,406)	\$ (11,831)	
GAAP net loss per share, basic and diluted	\$ (0.29)	\$ (0.25)	
Non-GAAP net income (loss)	\$ 571	\$ (2,056)	
Non-GAAP net income (loss) per share, basic	\$ 0.01	\$ (0.04)	
Non-GAAP net income (loss) per share, diluted	\$ 0.01	\$ (0.04)	
Adjusted EBITDA	\$ 3,446	\$ (1,102)	
Cash provided by (used in) operating activities	\$ 1,839	\$ (4,050)	

Recent Business Highlights

- In October, Forrester Research recognized Rapid7 as a leader in The Forrester Wave™: Vulnerability Risk Management, Q4 2019 report.
- Please see investors.rapid7.com for our Financial Metrics spreadsheet.
- For additional details on the reconciliation of non-GAAP measures to their nearest comparable GAAP measures, please refer to the accompanying financial data tables contained in this press release.



Fourth Quarter and Full-Year 2019 Guidance

Rapid7 anticipates total revenue, non-GAAP income (loss) from operations, and non-GAAP net income (loss) per share to be in the following ranges:

Fourth Quarter and Full-Year 2019 Guidance (in millions, except per share data)

	Fourth Quarter 2019		Full-Year 2019	
Revenue	\$ 87.4	to \$ 89.0	\$ 322.7	to \$ 324.3
Year-over-year growth	27%	to 29%	32%	to 33%
Non-GAAP (loss) income from operations	\$ (1.6)	to \$ (0.6)	\$ —	to \$ 1.0
Non-GAAP net (loss) income per share	\$ (0.02)	to \$ —	\$ 0.03	to \$ 0.05
Weighted average shares outstanding		49.6		52.1

Guidance for the fourth quarter and full-year 2019 does not include any potential impact of foreign exchange gains or losses. The weighted average shares outstanding for the fourth quarter of 2019 represent basic shares outstanding given our projected non-GAAP net loss. The weighted average shares outstanding for full-year 2019 represent diluted shares outstanding given our projected non-GAAP net income.

Non-GAAP guidance excludes estimates for stock-based compensation expense, amortization of acquired intangible assets, amortization of debt discount and issuance costs, and certain other items. Rapid7 has provided a reconciliation of historical non-GAAP financial measures to the most comparable GAAP measures in the financial statement tables included in this press release. A reconciliation of non-GAAP guidance measures to the most comparable GAAP measures is not available on a forward-looking basis without unreasonable efforts due to the high variability, complexity and low visibility with respect to the charges excluded from these non-GAAP measures.

Conference Call and Webcast Information

Rapid7 will host a conference call today, November 5, 2019, to discuss its results at 8:00 a.m. Eastern Time. The call will be accessible by telephone at 877-357-4230 (domestic) or 629-228-0721 (international). The call will also be available live via webcast on the Company's website at <https://investors.rapid7.com>. A telephone replay of the conference call will be available at 855-859-2056 or 404-537-3406 (access code 9168155) until November 12, 2019. A webcast replay will be available at <https://investors.rapid7.com>.

About Rapid7

Rapid7 (Nasdaq: RPD) is advancing security with visibility, analytics, and automation delivered through our Insight cloud. 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. Over 8,500 customers rely on Rapid7 technology, services, and research to improve security outcomes and securely advance their organizations. For more information, visit our website, check out our blog, or follow us on Twitter.

Non-GAAP Financial Measures and Other Metrics

To supplement our consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles in the United States, or GAAP, we provide investors with certain non-GAAP financial measures and other metrics, which we believe are helpful to our investors. We use these non-GAAP financial measures and other metrics for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons. We also use certain non-GAAP financial measures as performance measures under our executive bonus plan. We believe that these non-GAAP financial measures and other metrics 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.



Non-GAAP Financial Measures

We disclose the following non-GAAP financial measures: non-GAAP gross profit, non-GAAP income (loss) from operations, non-GAAP net income (loss), non-GAAP net income (loss) per share and adjusted EBITDA.

We define non-GAAP gross profit, non-GAAP income (loss) 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, follow-on public offering costs, and litigation-related expenses. Non-GAAP net income (loss) per basic and dilutive 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 the 1.25% convertible senior note issued in August 2018.

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. In August 2018, we issued \$230 million of convertible senior notes, which bear interest at an annual fixed rate of 1.25%. The imputed interest rate of the convertible senior notes was approximately 7.37%. This is a result of the debt discount recorded for the conversion feature that is required to be separately accounted for as equity, and debt issuance costs, which reduce the carrying value of the convertible debt instrument. The debt discount is amortized as interest expense together with the issuance costs of the debt. The expense for the amortization of debt discount and debt issuance costs 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.

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 and follow-on public offering costs. We exclude acquisition-related expenses and follow-on public offering costs as costs that are unrelated to the current operations and neither are comparable to the prior period nor predictive of future results.

Anti-dilutive impact of capped call transaction. In connection with the issuance of our convertible senior notes, we entered into capped call transactions to offset potential dilution from the embedded conversion feature in the 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 basic and diluted share to provide investors with useful information in evaluating the financial performance of the company on a per share basis.

Adjusted EBITDA (non-GAAP). Adjusted EBITDA is a non-GAAP measure that we define as net loss before (1) interest income, (2) interest expense, (3) other income (expense), net, (4) provision for (benefit from) 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. Adjusted EBITDA should not be considered as a substitute for other measures of financial performance reported in accordance with GAAP. There are limitations to using this non-GAAP financial measure, including that other companies may calculate this measure differently than we do, that it does not reflect our capital expenditures or future requirements for capital expenditures and that it does not reflect changes in, or cash requirements for, our working capital and excludes some items that are cash based.



Other Metrics

Annualized Recurring Revenue (ARR). ARR is defined as the annual value of all recurring revenue related contracts in place at the end of the period. 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 and 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.

Number of Customers. We define a customer as any entity that has (1) an active Rapid7 contract or a contract that expired within 90 days or less of the applicable measurement date; and for Logentrics 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.

ARR per Customer. We define ARR per customer as ARR divided by the number of customers at the end of the period.

Recurring Revenue. We define recurring revenue as revenue from term software licenses, content subscriptions, managed services, cloud-based subscriptions and maintenance and support.

Renewal Rate. We calculate our renewal rate by dividing the dollar value of renewed customer agreements, including upsells and cross-sells of additional products, but excluding professional services, in a trailing 12-month period by the dollar value of the corresponding customer agreements.

Cautionary Language Concerning Forward-Looking Statements

This press release includes forward-looking statements. All statements contained in this press release other than statements of historical facts, including, without limitation, statements regarding our anticipated total revenue and our future financial and business performance for the fourth quarter and full-year 2019, market opportunities and future growth are forward-looking statements. The words "anticipate," "believe," "continue," "estimate," "expect," "intend," "may," "will" and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements are subject to a number of risks and uncertainties, including, without limitation, risks related to our rapid growth and ability to sustain our revenue growth rate, the ability of our products and professional services to correctly detect vulnerabilities, competition in the markets in which we operate, market growth, our ability to innovate and manage our growth, our ability to integrate acquired operations, our ability to operate in compliance with applicable laws as well as other risks and uncertainties set forth in the "Risk Factors" section of our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission for the quarter ended June 30, 2019 filed with the Securities and Exchange Commission on August 1, 2019, and subsequent reports that we file with the Securities and Exchange Commission. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, we cannot guarantee future results, levels of activity, performance, achievements or events and circumstances reflected in the forward-looking statements will occur. We are under no duty to update any of these forward-looking statements after the date of this press release to conform these statements to actual results or revised expectations, except as required by law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this press release.

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RAPID7, INC.
Consolidated Balance Sheets (Unaudited)
(in thousands)

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 114,925	\$ 99,565
Short-term investments	131,815	159,210
Accounts receivable, net	62,422	74,935
Deferred contract acquisition and fulfillment costs, current portion	14,905	12,321
Prepaid expenses and other current assets	15,827	9,746
Total current assets	339,894	355,777
Long-term investments	10,997	44,892
Property and equipment, net	51,519	17,523
Operating lease right-of-use assets	61,217	—
Deferred contract acquisition and fulfillment costs, non-current portion	30,452	27,634
Goodwill	97,866	88,420
Intangible assets, net	29,183	23,955
Other assets	5,466	1,168
Total assets	\$ 626,594	\$ 559,369
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 6,549	\$ 7,048
Accrued expenses	33,174	37,376
Operating lease liabilities, current portion	6,460	—
Deferred revenue, current portion	200,314	189,855
Other current liabilities	285	707
Total current liabilities	246,782	234,986
Convertible senior notes, net	182,471	174,688
Operating lease liabilities, non-current portion	73,266	—
Deferred revenue, non-current portion	36,620	58,716
Other long-term liabilities	1,280	3,660
Total liabilities	540,419	472,050
Stockholders' equity:		
Common stock	493	476
Treasury stock	(4,764)	(4,764)
Additional paid-in-capital	594,226	556,223
Accumulated other comprehensive income (loss)	304	(31)
Accumulated deficit	(504,084)	(464,585)
Total stockholders' equity	86,175	87,319
Total liabilities and stockholders' equity	\$ 626,594	\$ 559,369

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue:				
Products	\$ 67,298	\$ 43,829	\$ 186,793	\$ 118,151
Maintenance and support	9,178	10,614	28,107	31,977
Professional services	6,679	7,922	20,399	25,193
Total revenue	<u>83,155</u>	<u>62,365</u>	<u>235,299</u>	<u>175,321</u>
Cost of revenue:				
Products	15,627	10,294	42,668	28,380
Maintenance and support	2,076	1,901	6,041	5,757
Professional services	5,927	5,615	17,075	17,660
Total cost of revenue	<u>23,630</u>	<u>17,810</u>	<u>65,784</u>	<u>51,797</u>
Total gross profit	<u>59,525</u>	<u>44,555</u>	<u>169,515</u>	<u>123,524</u>
Operating expenses:				
Research and development	20,154	17,111	57,645	49,915
Sales and marketing	39,904	30,570	113,214	90,779
General and administrative	11,223	8,175	32,336	25,056
Total operating expenses	<u>71,281</u>	<u>55,856</u>	<u>203,195</u>	<u>165,750</u>
Loss from operations	(11,756)	(11,301)	(33,680)	(42,226)
Other income (expense), net:				
Interest income	1,448	813	4,761	1,520
Interest expense	(3,399)	(1,679)	(9,940)	(1,681)
Other income (expense), net	(492)	181	(727)	(67)
Loss before income taxes	(14,199)	(11,986)	(39,586)	(42,454)
Provision for (benefit from) income taxes	207	(155)	(87)	71
Net loss	<u>\$ (14,406)</u>	<u>\$ (11,831)</u>	<u>\$ (39,499)</u>	<u>\$ (42,525)</u>
Net loss per share, basic and diluted	<u>\$ (0.29)</u>	<u>\$ (0.25)</u>	<u>\$ (0.82)</u>	<u>\$ (0.92)</u>
Weighted-average common shares outstanding, basic and diluted	<u>49,020,449</u>	<u>46,914,077</u>	<u>48,437,686</u>	<u>46,139,978</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cash flows from operating activities:				
Net loss	\$ (14,406)	\$ (11,831)	\$ (39,499)	\$ (42,525)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	4,598	2,660	11,969	7,737
Amortization of debt discount and issuance costs	2,679	1,296	7,783	1,296
Stock-based compensation expense	10,426	7,424	29,490	20,999
Provision for doubtful accounts	429	24	1,782	480
Deferred income taxes	—	—	(761)	—
Foreign currency re-measurement loss	379	95	570	566
Other non-cash (income) expense	(345)	(274)	(1,635)	(345)
Changes in operating assets and liabilities:				
Accounts receivable	6,311	(5,299)	10,860	19,287
Deferred contract acquisition and fulfillment costs	(2,231)	(1,854)	(5,403)	(6,385)
Prepaid expenses and other assets	(544)	1,168	(9,878)	(2,434)
Accounts payable	(1,052)	(1,826)	1,132	565
Accrued expenses	2,490	5,632	(4,822)	(2,174)
Deferred revenue	(7,058)	(1,312)	(12,124)	(2,313)
Other liabilities	163	47	1,292	(622)
Net cash provided by (used in) operating activities	1,839	(4,050)	(9,244)	(5,868)
Cash flows from investing activities:				
Business acquisition, net of cash acquired	14	—	(14,607)	—
Purchases of property and equipment	(9,341)	(2,754)	(27,053)	(8,404)
Capitalization of internal-use software costs	(1,534)	(1,092)	(4,686)	(2,505)
Purchases of investments	(41,776)	(168,290)	(114,208)	(178,945)
Sales/maturities of investments	36,985	6,448	177,287	39,576
Net cash (used in) provided by investing activities	(15,652)	(165,688)	16,733	(150,278)
Cash flows from financing activities:				
Proceeds from issuance of convertible senior notes, net of issuance costs	—	223,529	—	223,529
Purchase of capped calls related to convertible senior notes	—	(26,910)	—	(26,910)
Proceeds from follow-on public offering, net of offering costs	—	—	—	30,907
Taxes paid related to net share settlement of equity awards	(2,087)	(707)	(4,926)	(1,712)
Proceeds from employee stock purchase plan	2,887	2,005	5,521	3,637
Proceeds from stock option exercises	1,866	1,864	7,924	6,521
Net cash provided by financing activities	2,666	199,781	8,519	235,972
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(497)	(114)	(648)	(428)
Net increase in cash, cash equivalents and restricted cash	(11,644)	29,929	15,360	79,398
Cash, cash equivalents and restricted cash, beginning of period	126,569	101,231	99,565	51,762
Cash, cash equivalents and restricted cash, end of period	\$ 114,925	\$ 131,160	\$ 114,925	\$ 131,160

RAPID7, INC.
GAAP to Non-GAAP Reconciliation (Unaudited)
(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
GAAP gross profit	\$ 59,525	\$ 44,555	\$ 169,515	\$ 123,524
Add: Stock-based compensation expense ¹	679	478	1,970	1,321
Add: Amortization of acquired intangible assets ²	1,661	901	4,681	2,702
Non-GAAP gross profit	<u>\$ 61,865</u>	<u>\$ 45,934</u>	<u>\$ 176,166</u>	<u>\$ 127,547</u>
Non-GAAP gross margin	74.4%	73.7%	74.9%	72.8%
GAAP gross profit - Products	\$ 51,671	\$ 33,535	\$ 144,125	\$ 89,771
Add: Stock-based compensation expense	216	142	580	424
Add: Amortization of acquired intangible assets	1,661	901	4,681	2,702
Non-GAAP gross profit - Products	<u>\$ 53,548</u>	<u>\$ 34,578</u>	<u>\$ 149,386</u>	<u>\$ 92,897</u>
Non-GAAP gross margin - Products	79.6%	78.9%	80.0%	78.6%
GAAP gross profit - Maintenance and support	\$ 7,102	\$ 8,713	\$ 22,066	\$ 26,220
Add: Stock-based compensation expense	170	73	456	161
Non-GAAP gross profit - Maintenance and support	<u>\$ 7,272</u>	<u>\$ 8,786</u>	<u>\$ 22,522</u>	<u>\$ 26,381</u>
Non-GAAP gross margin - Maintenance and support	79.2%	82.8%	80.1%	82.5%
GAAP gross profit - Professional services	\$ 752	\$ 2,307	\$ 3,324	\$ 7,533
Add: Stock-based compensation expense	293	263	934	736
Non-GAAP gross profit - Professional services	<u>\$ 1,045</u>	<u>\$ 2,570</u>	<u>\$ 4,258</u>	<u>\$ 8,269</u>
Non-GAAP gross margin - Professional services	15.6%	32.4%	20.9%	32.8%
GAAP Loss from operations	\$ (11,756)	\$ (11,301)	\$ (33,680)	\$ (42,226)
Add: Stock-based compensation expense ¹	10,426	7,424	29,490	20,999
Add: Amortization of acquired intangible assets ²	1,694	940	4,789	2,821
Add: Acquisition-related expenses ³	—	115	514	115
Add: Follow-on public offering costs ⁴	—	—	—	205
Add: Litigation-related expenses ⁵	178	—	506	400
Non-GAAP Income (loss) from operations	<u>\$ 542</u>	<u>\$ (2,822)</u>	<u>\$ 1,619</u>	<u>\$ (17,686)</u>
GAAP Net loss	\$ (14,406)	\$ (11,831)	\$ (39,499)	\$ (42,525)
Add: Stock-based compensation expense ¹	10,426	7,424	29,490	20,999
Add: Amortization of acquired intangible assets ²	1,694	940	4,789	2,821
Add: Acquisition-related expenses ³	—	115	514	115
Add: Follow-on public offering costs ⁴	—	—	—	205
Add: Litigation-related expenses ⁵	178	—	506	400
Add: Release of valuation allowance, acquisition-related	—	—	(761)	—
Add: Amortization of debt discount and issuance costs	2,679	1,296	7,783	1,296
Non-GAAP Net income (loss)	<u>\$ 571</u>	<u>\$ (2,056)</u>	<u>\$ 2,822</u>	<u>\$ (16,689)</u>
Reconciliation of net income (loss) per share, basic				
GAAP net loss per share, basic	\$ (0.29)	\$ (0.25)	\$ (0.82)	\$ (0.92)

Non-GAAP adjustments to net loss	0.30	0.21	0.88	0.56
Non-GAAP net income (loss) per share, basic	\$ 0.01	\$ (0.04)	\$ 0.06	\$ (0.36)

Reconciliation of net income (loss) per share, diluted

GAAP net loss per share, diluted	\$ (0.29)	\$ (0.25)	\$ (0.82)	\$ (0.92)
Non-GAAP adjustments to net loss	0.30	0.21	0.87	0.56
Non-GAAP net income (loss) per share, diluted	\$ 0.01	\$ (0.04)	\$ 0.05	\$ (0.36)

Weighted average shares used in GAAP per share calculation, basic and diluted

49,020,449	46,914,077	48,437,686	46,139,978
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Weighted average shares used in non-GAAP per share calculation:

Basic	49,020,449	46,914,077	48,437,686	46,139,978
Diluted	52,404,657	46,914,077	51,879,345	46,139,978

¹ Includes stock-based compensation expense as follows:

Cost of revenue	\$ 679	\$ 478	\$ 1,970	\$ 1,321
Research and development	3,996	2,984	11,224	8,400
Sales and marketing	3,047	2,066	8,453	5,684
General and administrative	2,704	1,896	7,843	5,594

² Includes amortization of acquired intangible assets as follows:

Cost of revenue	\$ 1,661	\$ 901	\$ 4,681	\$ 2,702
Sales and marketing	32	38	105	115
General and administrative	1	1	3	4

³ Includes acquisition-related expenses as follows:

General and administrative	\$ —	\$ 115	\$ 514	\$ 115
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⁴ Includes follow-on public offering costs as follows:

General and administrative	\$ —	\$ —	\$ —	\$ 205
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⁵ Includes litigation-related expenses as follows:

General and administrative	\$ 178	\$ —	\$ 506	\$ 400
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RAPID7, INC.
Reconciliation of Net Loss to Adjusted EBITDA (Unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
GAAP net loss	\$ (14,406)	\$ (11,831)	\$ (39,499)	\$ (42,525)
Interest income	(1,448)	(813)	(4,761)	(1,520)
Interest expense	3,399	1,679	9,940	1,681
Other (income) expense, net	492	(181)	727	67
Provision for (benefit from) income taxes	207	(155)	(87)	71
Depreciation expense	2,520	1,591	6,426	4,616
Amortization of intangible assets	2,078	1,069	5,543	3,121
Stock-based compensation expense	10,426	7,424	29,490	20,999
Acquisition-related expenses	—	115	514	115
Follow-on public offering costs	—	—	—	205
Litigation-related expenses	178	—	506	400
Adjusted EBITDA	\$ 3,446	\$ (1,102)	\$ 8,799	\$ (12,770)