NEW RELIC, INC.
Form 10-Q
February 07, 2019

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2018
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: 001-36766

New Relic, Inc.
(Exact name of registrant as specified in its charter)

Delaware	26-2017431
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

188 Spear Street, Suite 1200
San Francisco, California 94105
(Address of principal executive offices, including zip code)
(650) 777-7600
(Registrant’s telephone number, including area code)
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý 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	Smaller reporting company
Emerging growth company	

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

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

As of January 28, 2019, there were 57,351,466 shares of the registrant's common stock, par value $0.001 per share, outstanding.

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Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to “New Relic,” “we,” “Company,” “us,” and “our” refer to New Relic, Inc. and its subsidiaries. “New Relic,” the New Relic logo, and other trademarks or service marks of New Relic that may appear in this Quarterly Report on Form 10-Q are the property of the Company. This Quarterly Report on Form 10-Q contains additional trade names, trademarks, and service marks of other companies. The Company does not intend its use or display of other companies’ trade names, trademarks, or service marks to imply a relationship with, or endorsement or sponsorship of the Company by, these other companies, and all such third-party trade names, trademarks, and service marks are the property of their respective owners.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “would,” “shall,” “might,” “expects,” “plans,” “anticip “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the n these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our revenue, cost of revenue, gross profit, gross margin, operating expenses, ability to generate positive cash flow, and ability to achieve and maintain GAAP (as defined below) and non-GAAP profitability;
- use and limitations of non-GAAP financial measures;
- the sufficiency of our cash and cash equivalents to meet our working capital, capital expenditures, and liquidity needs;
- our ability to attract and retain customers to use our products, to optimize the pricing for our products, to expand our sales to our customers, and to convince our existing customers to renew subscriptions;
- the evolution of technologies affecting our products and markets;
- our ability to innovate and provide a superior user experience and our intentions and strategy with respect thereto;
- our ability to successfully penetrate enterprise markets;
- our ability to successfully expand in our existing markets and into new markets, including international markets;
- the attraction and retention of key personnel;
- our ability to effectively manage our growth and future expenses;
- our ability to maintain, protect, and enhance our intellectual property rights;
- worldwide economic conditions and their impact on spending; and
- our ability to comply with modified or new laws and regulations applying to our business, including privacy and data security regulations.

We caution you that the foregoing list does not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the sections titled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NEW RELIC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	December 31, 2018	March 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$185,462	$132,479
Short-term investments	536,849	115,441
Accounts receivable, net of allowance for doubtful accounts of $1,748 and $1,728, respectively	102,433	99,488
Prepaid expenses and other current assets	16,739	15,591
Deferred contract acquisition costs	25,275	—
Total current assets	866,758	362,999
Property and equipment, net	71,076	53,899
Restricted cash	8,254	8,202
Goodwill	15,334	11,828
Intangible assets, net	3,394	1,312
Deferred contract acquisition costs, non-current	24,487	—
Other assets	4,536	5,086
Total assets	$993,839	$443,326
Liabilities, redeemable non-controlling interest and stockholders’ equity		
Current liabilities:		
Accounts payable	$11,237	$2,985
Accrued compensation and benefits	23,222	17,414
Other current liabilities	11,054	8,619
Deferred revenue	200,231	189,633
Total current liabilities	245,744	218,651
Convertible senior notes, net	400,845	—
Deferred rent, non-current	10,620	8,147
Deferred revenue, non-current	6,638	649
Other liabilities, non-current	899	775
Total liabilities	664,746	228,222
Commitments and contingencies (Note 9)		
Redeemable non-controlling interest	3,313	—
Stockholders’ equity:		
Common stock, $0.001 par value; 100,000 shares authorized at December 31, 2018 and March 31, 2018; 57,536 shares and 56,213 shares issued at December 31, 2018 and March 31, 2018, respectively; and 57,276 shares and 55,953 shares outstanding at December 31, 2018 and March 31, 2018, respectively	57	56
Treasury stock - at cost (260 shares)	(263)	(263)
Additional paid-in capital	614,674	521,119
Accumulated other comprehensive income (loss)	39	(324)
Accumulated deficit	(288,727)	(305,484)
Total stockholders’ equity	325,780	215,104
Total liabilities, redeemable non-controlling interest and stockholders’ equity	$993,839	$443,326

See notes to condensed consolidated financial statements.

NEW RELIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Revenue	$124,011	$91,827	$347,128	$256,610
Cost of revenue	20,206	15,671	55,703	46,342
Gross profit	103,805	76,156	291,425	210,268
Operating expenses:				
Research and development	26,182	18,154	72,747	54,686
Sales and marketing	66,461	51,393	185,091	152,015
General and administrative	19,702	14,596	51,293	42,843
Total operating expenses	112,345	84,143	309,131	249,544
Loss from operations	(8,540)	(7,987)	(17,706)	(39,276)
Other income (expense):				
Interest income	3,922	534	9,026	1,503
Interest expense	(5,669)	(21)	(13,932)	(64)
Other income (expense), net	(8)	(45)	(1,285)	117
Loss before income taxes	(10,295)	(7,519)	(23,897)	(37,720)
Income tax provision (benefit)	(106)	210	440	634
Net loss	$(10,189)	$(7,729)	$(24,337)	$(38,354)
Net loss attributable to redeemable non-controlling interest	86	—	283	—
Net loss attributable to New Relic	$(10,103)	$(7,729)	$(24,054)	$(38,354)
Net loss attributable to New Relic per share, basic and diluted	$(0.18)	$(0.14)	$(0.42)	$(0.70)
Weighted-average shares used to compute net loss per share, basic and diluted	57,096	55,196	56,663	54,534

See notes to condensed consolidated financial statements.

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NEW RELIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Net loss attributable to New Relic	$(10,103)	$(7,729)	$(24,054)	$(38,354)
Other comprehensive loss:				
Unrealized gain (loss) on available-for-sale securities, net of tax	612	(135)	363	(133)
Comprehensive loss	$(9,491)	$(7,864)	$(23,691)	$(38,487)

See notes to condensed consolidated financial statements.

NEW RELIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net loss attributable to New Relic	$(24,054)	$(38,354)
Net loss attributable to redeemable non-controlling interest (Note 3)	(283)	—
Net loss:	(24,337)	(38,354)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	38,585	17,306
Stock-based compensation expense	39,624	29,778
Amortization of debt discount and issuance costs	12,313	—
Other	(800)	498
Changes in operating assets and liabilities:		
Accounts receivable	(3,411)	9,223
Prepaid expenses and other assets	3,262	(4,438)
Deferred contract acquisition costs	(27,689)	—
Accounts payable	3,850	(829)
Accrued compensation and benefits and other liabilities	7,771	2,475
Deferred revenue	16,827	8,938
Deferred rent	899	(504)
Net cash provided by operating activities	66,894	24,093
Cash flows from investing activities:		
Purchases of property and equipment	(29,715)	(17,577)
Cash paid for acquisition (Note 2)	(5,556)	—
Purchases of short-term investments	(581,504)	(78,074)
Proceeds from sale and maturity of short-term investments	161,237	88,232
Capitalized software development costs	(3,810)	(3,054)
Net cash used in investing activities	(459,348)	(10,473)
Cash flows from financing activities:		
Investment from redeemable non-controlling interest	3,596	—
Proceeds from issuance of convertible senior notes, net of issuance costs paid of $11,582	488,669	—
Purchase of capped call related to convertible senior notes	(63,182)	—
Proceeds from employee stock purchase plan	4,887	3,029
Proceeds from exercise of employee stock options	11,519	20,370
Net cash provided by financing activities	445,489	23,399
Net increase in cash, cash equivalents and restricted cash	53,035	37,019
Cash, cash equivalents and restricted cash at beginning of period	140,681	96,420
Cash, cash equivalents and restricted cash at end of period	$193,716	$133,439
Supplemental disclosure of cash flow information:		
Cash paid for interest and income taxes	$683	$358
Noncash investing and financing activities:		
Property and equipment purchased but not yet paid	$5,758	$256
Acquisition holdback	865	—

See notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1.Description of Business and Summary of Significant Accounting Policies
Description of Business—New Relic, Inc. (the "Company" or "New Relic") was incorporated in Delaware on February 20, 2008, when it converted from a Delaware limited liability company called New Relic Software, LLC, which was formed in Delaware in September 2007. The Company is a software-as-a-service provider of products that allow users to monitor software and infrastructure performance and measure end user activities across desktop and mobile devices with applications deployed in the cloud or in a data center. New Relic's products and platform capabilities enable software developers, IT operations, and business users to better operate their digital business.
Basis of Presentation —These unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding interim financial reporting. 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. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2018, as filed with the SEC on May 11, 2018 (the "Annual Report"). Except for updates to the Company's accounting policies related to the adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers regarding Accounting Standards Codification ("ASC") Topic 606 ("ASC 606"), there have been no changes to the Company's significant accounting policies described in the Annual Report that have had a material impact on its condensed consolidated financial statements and related notes.

Effective April 1, 2018, the Company adopted the requirements of ASC 606. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the period presented, ASC 605, Revenue Recognition ("ASC 605").
In the opinion of management, the unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss and cash flows for the interim period, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending March 31, 2019. The condensed consolidated balance sheet as of March 31, 2018 included herein was derived from the audited financial statements as of that date.
Use of Estimates—The preparation of the Company's condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period. Significant items subject to such estimates and assumptions include the fair value of share-based awards, fair value of purchased intangible assets and goodwill, fair value of debt and equity components related to the 0.5% convertible senior notes due 2023 (the "Notes"), useful lives of purchased intangible assets, unrecognized tax benefits, expected benefit period for deferred commissions and the capitalization and estimated useful life of the Company's software development costs.
These estimates are based on information available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from management's estimates.
Concentration of Risk—There was one customer that represented more than 10% of the Company's accounts receivable balance as of December 31, 2018 and no customers that represented more than 10% of the Company's accounts receivable balance as of March 31, 2018. There were no customers that individually exceeded 10% of the Company's revenue during the three and nine months ended December 31, 2018 or 2017.

Summary of Significant Accounting Policies—Except for the accounting policies for revenue recognition, deferred revenue and deferred commissions that were updated as a result of adopting ASC 606 and those related to our Notes, there have been no changes to our significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018, filed with the SEC on May 11, 2018 that have had a material impact on our condensed consolidated financial statements and related notes. See Note 4—Revenue Recognition for a summary of our new accounting policies under ASC 606.

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 regarding ASC 606, amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASC 606 also includes Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. The Company adopted ASC 606 and its related amendments effective on April 1, 2018 using the modified retrospective method. See Note 4—Revenue Recognition for disclosure on the impact of adopting this standard on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. ASU 2016-02 is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. The Company plans to adopt this new standard using the modified retrospective approach with optional practical expedients in the first quarter of fiscal 2020. The Company continues to evaluate the accounting, transition, and disclosure requirements of this standard and cannot currently estimate the financial statement impact of adoption.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. The updated guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down. The measurement of credit losses for newly recognized financial assets and subsequent changes in the allowance for credit losses are recorded in the statement of income. The update to the standard will be effective for the Company in the fiscal year beginning April 1, 2020; early adoption is permitted in the fiscal year beginning April 1, 2019. The Company is currently evaluating the effect the standard will have on its condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires restricted cash and restricted cash equivalents to be included with cash and cash equivalents in the statements of cash flows. The Company adopted the standard in its fiscal year beginning April 1, 2018. Adoption was applied on a retrospective basis to all periods presented. Aside from conforming to new cash flow presentation and restricted cash disclosure requirements, the standard did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which eliminates Step 2 from the goodwill impairment test. This standard is effective for goodwill impairment tests performed by the Company in the fiscal year beginning April 1, 2020; early adoption is permitted. The Company has not yet adopted ASU 2017-04 and does not believe that this standard will have a material impact on its consolidated financial statements or disclosures.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. On April 1, 2018, the Company adopted ASU 2017-09 and the adoption did not have a significant impact on its condensed consolidated financial statements.

In March 2018, the FASB issued ASU 2018-05, which amends ASC Topic 740, Income Taxes to conform with SEC Staff Accounting Bulletin (SAB) No. 118, issued in December 2017. The guidance was issued to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act. See Note 11—Income Taxes.

In March 2018, the FASB issued ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract; Disclosures for Implementation Costs Incurred for Internal-Use

Software and Cloud Computing Arrangements, which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset. ASU 2018-15 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. The Company is currently evaluating the effect the standard will have on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Non-Employee Share Based Payment Accounting ("ASU 2018-07"), with an intent to reduce cost and complexity and to improve financial reporting for share-based payments issued to non-employees. The amendments in ASU 2018-07 provide for the simplification of the measurement of share-based payment transactions for acquiring goods and services from non-employees. Currently, the accounting requirements for nonemployee and employee share-based payment transactions are significantly different. This standard expands the scope of Topic 718 to include share-based payments issued to nonemployees for goods or services, aligning the accounting for share-based payments to nonemployees and employees. ASU 2018-07 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those periods, and early adoption is permitted. The Company plans to adopt this new standard in the first quarter of fiscal 2020. The Company does not expect the adoption to have a significant impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"), which amends ASC 820, Fair Value Measurement. ASU 2018-13 modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The effective date is the first quarter of fiscal year 2021, with early adoption permitted for the removed disclosures and delayed adoption permitted until fiscal year 2021 for the new disclosures. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. The Company has not yet adopted ASU 2018-13 and is currently evaluating the effect the standard will have on its consolidated financial statements.

2. Business Combination

On October 9, 2018, the Company acquired certain assets of CoScale NV ("CoScale"), a public limited liability company organized and existing under the laws of Belgium that provides solutions for monitoring the performance of software container environments for $6.3 million in cash. The Company held back approximately $0.9 million from the aggregate purchase price. Of the total purchase price, $2.9 million was allocated to acquired technology with an estimated useful life of three years, with the excess $3.4 million of the purchase price over the fair value of intangible assets acquired recorded as goodwill. The Company also recognized transaction costs of approximately $0.3 million, which is also included in general and administrative expense in its condensed consolidated statement of operations for the nine months ended December 31, 2018. The acquisition has been accounted for as a business combination under the acquisition method. Goodwill generated from the acquisition is attributable to expected synergies from future growth and potential future monetization opportunities, and is not deductible for tax purposes.The business combination did not have a material impact on the condensed consolidated financial statements and therefore historical and proforma disclosures have not been presented.

3. Joint Venture

On July 13, 2018, the Company entered into an agreement with Japan Cloud Computing L.P. ("JCC") and M30 LLC (collectively, the Investors) to engage in the investment, organization, management and operation of New Relic K.K., a Japanese subsidiary of the Company that is focused on the sale of the Company's products and services in Japan. On August 21, 2018, the investors initially contributed approximately $3.6 million (396,000,000 Japanese Yen) in exchange for 40% of the outstanding common stock of New Relic K.K. Furthermore, under the terms of the agreement, the Company and the Investors have agreed to subscribe to additional shares by contributing additional funding of up to approximately $1.4 million (156,000,000 Japanese Yen) and approximately $0.9 million (104,000,000 Japanese Yen), respectively, on August 21, 2019. The additional funding amounts are fixed in Japanese Yen irrespective of any currency fluctuation. As of December 31, 2018, the Company owned approximately 60% of the outstanding common stock in New Relic K.K.

All of the common stock held by the Investors may be callable by the Company or puttable by the Investors upon certain contingent events. Should the call or put option be exercised, the redemption value would be determined based on a prescribed formula derived from the discrete revenues of New Relic K.K. and the Company and may be settled, at the Company's discretion, with Company stock or cash. As a result of the put right available to the redeemable non-controlling interest holders in the future, the redeemable non-controlling interests in New Relic K.K. are classified outside of permanent equity in the Company's condensed consolidated balance sheet as of December 31, 2018, and the balance is reported at the greater of the initial carrying amount adjusted for the redeemable non-controlling interests' share of earnings or losses, or its estimated redemption value. The resulting changes in the estimated redemption amount are recorded within retained earnings or, in the absence of retained earnings, additional paid-in-capital. The estimated redemption value of the call/put option embedded in the redeemable non-controlling interests was $0 at December 31, 2018.

The following table summarizes the activity in the redeemable non-controlling interests for the period indicated below:

Balance as of July 1, 2018	$—
Investment by redeemable non-controlling interest	3,596
Net loss attributable to redeemable non-controlling interest	$(283)
Balance as of December 31, 2018	$3,313

4. Revenue Recognition

The Company offers a comprehensive suite of products delivered on its open and extensible cloud-based platform that enable organizations to collect, store and analyze massive amounts of data in real time so they can better operate their applications and infrastructure and improve their digital customer experience. The Company generates revenue by selling subscription-based arrangements that allow its customers to access its cloud-based platform.

The Company determines revenue recognition through the following steps: (i) identification of the contract, or contracts with a customer, (ii) identification of the performance obligations in the contract, (iii) determination of the transaction price, (iv) allocation of the transaction price to the performance obligations in the contract, and (v) recognition of revenue, when, or as, the Company satisfies a performance obligation.

Subscription revenue is recognized on a ratable basis over the contractual subscription period of the arrangement beginning when or as control of the promised goods or services is transferred to the customer. Deferred revenue consists of billings or payments received in advance of revenue being recognized.

ASC 606 Adoption Impact

The primary impact of adopting the new standard relates to the deferral of incremental commission costs of obtaining contracts. Previously, the Company recorded commissions as sales and marketing expenses as incurred. Under the new standard, the Company capitalizes incremental commissions related to initial contracts and amortizes such costs over the expected period of benefit, which the Company has determined to be three years. With regards to incremental commissions related to renewal contracts, the Company has adopted the practical expedient to expense such commissions as incurred, as the commission paid on renewals are commensurate and the contract periods are generally one year or less. The Company has adopted ASC 606 in the first quarter of fiscal year 2019 using the modified retrospective approach and applied the standard to all contracts as of April 1, 2018. The cumulative effect of applying this standard was recognized on April 1, 2018. See below for the impact of adopting this standard.

The Company recognized the cumulative effect of applying the new revenue standard as an adjustment to the opening balance of accumulated deficit at April 1, 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the periods prior to adoption, ASC 605. In connection with the adoption of ASC 606, the Company also adopted ASC 340-40, Other Assets and Deferred Costs - Contracts with Customers, which requires the deferral of incremental costs of obtaining a contract with a customer. Collectively, the Company refers to ASC 606 and ASC 340-40 as the “new standard.”

Adoption of the new standard resulted in changes to the Company’s accounting policies for revenue recognition, commissions and deferred commissions as discussed below. The Company recorded a net reduction to the opening balance of accumulated deficit of $40.8 million as of April 1, 2018 due to the cumulative impact of adopting the new standard. The primary impact of adopting the new standard relates to the deferral of $40.6 million in incremental commission costs of obtaining subscription contracts. Under ASC 605, the Company recorded commissions as sales and marketing expenses as incurred. Under the new standard, the Company capitalizes incremental commissions related to initial contracts and amortizes these costs over a period of benefit determined to be three years. The remaining impact of adopting the standard is immaterial.

Practical Expedients and Exemptions

The Company applied ASC 606 using the following practical expedients: (i) costs of obtaining contracts with customers are expensed when the amortization period would have been one year or less; and (ii) contract acquisition costs are calculated based on a portfolio of contracts with similar characteristics instead of on a contract-by-contract analysis.

Impact on the Condensed Consolidated Financial Statements

Select condensed consolidated balance sheet line items, which reflects the adoption impact of the new standard as reported, as well as the impact of adoption, are as follows (in thousands):

	December 31, 2018		
	As Reported	Balances without adoption of ASC 606	Effect of Change Higher (Lower)
Assets:			
Deferred contract acquisition costs, current	$25,275	$—	$25,275
Deferred contract acquisition costs, non-current	24,487	—	24,487
Liabilities:			
Deferred revenue, current	$200,231	$201,286	$(1,055)
Deferred revenue, non-current	6,638	6,624	14
Stockholders' equity:			
Accumulated deficit	$(288,727)	$(339,920)	$51,193

Select condensed consolidated statement of operations line items, which reflects the adoption of the new standard, as reported, as well as the impact of adoption, are as follows (in thousands, except per share information):

	Three Months Ended December 31, 2018			Nine Months Ended December 31, 2018		
	As Reported	Balances without adoption of ASC 606	Effect of Change Higher (Lower)	As Reported	Balances without adoption of ASC 606	Effect of Change Higher (Lower)
Revenue	$124,011	$123,603	$408	$347,128	$346,339	$789
Sales and marketing	66,461	$70,083	$(3,622)	185,091	$194,290	$(9,199)
Loss from operations	$(8,540)	$(12,570)	$4,030	$(17,706)	$(27,694)	$9,988
Net loss attributable to New Relic	$(10,103)	$(14,133)	$4,030	$(24,054)	$(34,042)	$9,988
Net loss per share, basic and diluted	$(0.18)	$(0.25)	$0.07	$(0.42)	$(0.60)	$0.18

Select condensed consolidated cash flow line items, which reflects the adoption of the new standard as reported, as well as the impact of adoption, are as follows (in thousands):

Nine Months Ended December 31, 2018		
As Reported	Balances without adoption of ASC	Effect of Change

		606	Higher (Lower)
Depreciation and amortization	$38,585	$20,095	$18,490
Deferred contract acquisition costs	$(27,689)	$—	$(27,689)
Net cash provided by operating activities	$66,896	$66,896	$—

Disaggregation of Revenue

For disaggregated revenue by geography, refer to Note 13—Revenue by Geographic Location.

Contract Balances

The following table provides information about deferred revenue (in thousands):

	Deferred Revenue	
	Current	Non-Current
April 1, 2018	$188,860	$ 1,182
December 31, 2018	200,231	6,638

The Company receives payments from customers based upon billing cycles. As the Company performs under customer contracts, its right to consideration that is unconditional is considered to be accounts receivable. If the Company’s right to consideration for such performance is contingent upon a future event or satisfaction of additional performance obligations, the amount of revenues the Company has recognized in excess of the amount it has billed to the customer is considered to be a contract asset. Contract assets are immaterial, and as a result, the Company has no asset impairment charges related to contract assets in the period. Deferred revenue represents considerations received from customers in excess of revenues recognized.

Revenue recognized during the three and nine months ended December 31, 2018, which was included in the deferred revenue balances at the beginning of the period, was $90.5 million and $169.3 million, respectively. The satisfaction of performance obligations typically lags behind payments received under the new standard, which may lead to an increase in the Company’s deferred revenue balance over time. Movements between contract assets and receivables was not significant during the three and nine months ended December 31, 2018.

Deferred Commission Costs (Contract Acquisition Costs)

In connection with the adoption of ASC 340-40, the Company is required to capitalize certain contract acquisition costs primarily consisting of commissions. As of April 1, 2018, the date of adoption of ASC 340-40, the Company had $40.6 million capitalized in deferred contract acquisition costs related to contracts where the benefit period had not yet expired. In the three and nine months ended December 31, 2018, amortization from amounts capitalized was $6.7 million and $18.5 million, respectively, and amounts expensed as incurred were $2.3 million and $5.5 million, respectively. The Company had no impairment loss in relation to costs capitalized.

Remaining Performance Obligations

As of December 31, 2018, the unrecognized transaction price related to remaining performance obligations was $415.7 million. The Company expects to recognize more than 93% of the remaining performance obligations over the next 24 months, with the remainder recognized thereafter.

5. Fair Value Measurements

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of December 31, 2018 and March 31, 2018 based on the three-tier fair value hierarchy (in thousands):

	Fair Value Measurements as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	$101,475	$—	$ —	$101,475
Commercial paper	—	10,153	—	10,153
Short-term investments:				
Certificates of deposit	—	33,248	—	33,248
Commercial paper	—	35,157	—	35,157
Corporate notes and bonds	—	18,302	—	18,302
U.S. treasury securities	429,947	—	—	429,947
U.S. government agencies	—	20,195	—	20,195
Restricted cash:				
Money market funds	8,254	—	—	8,254
Total	$539,676	$117,055	$ —	$656,731
Included in cash and cash equivalents				$111,628
Included in short-term investments				$536,849
Included in restricted cash				$8,254

	Fair Value Measurements as of March 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	$38,458	$—	$ —	$38,458
Commercial paper	—	21,710	—	21,710
U.S. treasury securities	2,698	—	—	2,698
U.S. government agencies	—	5,498	—	5,498
Short-term investments:				
Certificates of deposit	—	20,492	—	20,492
Commercial paper	—	21,699	—	21,699
Corporate notes and bonds	—	9,794	—	9,794
U.S. treasury securities	40,187	—	—	40,187
U.S. government agencies	—	23,269	—	23,269
Restricted cash:				
Money market funds	8,202	—	—	8,202
Total	$89,545	$102,462	$ —	$192,007
Included in cash and cash equivalents				$68,364
Included in short-term investments				$115,441
Included in restricted cash				$8,202

There were no transfers between fair value measurement levels during the nine months ended December 31, 2018 and 2017.

Gross unrealized gains or losses for cash equivalents and short-term investments as of December 31, 2018 and March 31, 2018 were not significant. As of December 31, 2018 and March 31, 2018, there were no securities that were in an unrealized loss position for more than 12 months.

The following table classifies the Company's available-for-sale short-term investments by contractual maturities as of December 31, 2018 and March 31, 2018 (in thousands):

	December 31, 2018	March 31, 2018
Due within one year	$362,542	$96,924
Due after one year through two years	174,307	18,517
Total	$536,849	$115,441

For certain other financial instruments, including accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these balances.

Convertible Senior Notes

As of December 31, 2018, the fair value of the Notes was $456.8 million. The fair value was determined based on the quoted price of the Notes in an inactive market on the last trading day of the reporting period and has been classified as Level 2 in the fair value hierarchy.

6. Property and Equipment

Property and equipment, net, consisted of the following (in thousands):

	December 31, 2018	March 31, 2018
Computers, software, and equipment	$10,014	$8,335
Site operation equipment	56,627	37,254
Furniture and fixtures	3,408	2,981
Leasehold improvements	37,341	34,316
Capitalized software development costs	41,478	38,062
Total property and equipment	148,868	120,948
Less: accumulated depreciation and amortization	(77,792)	(67,049)
Total property and equipment, net	$71,076	$53,899

Depreciation and amortization expense related to property and equipment was $6.5 million and $5.5 million for the three months ended December 31, 2018 and 2017, respectively, and $18.7 million and $16.3 million for the nine months ended December 31, 2018 and 2017, respectively.

7. 0.5% Convertible Senior Notes and Capped Call

In May 2018, the Company issued $500.25 million in aggregate principal amount of Notes in a private offering, including an additional $65.25 million aggregate principal amount of such notes pursuant to the exercise in full of the initial purchasers' over-allotment option. The Notes are the Company's senior unsecured obligations and bear interest at a fixed rate of 0.5% per annum, payable semi-annually in arrears on May 1 and November 1 of each year, commencing on November 1, 2018. The Notes will mature on May 1, 2023, unless earlier converted or repurchased. The total net proceeds from the Notes, after deducting initial purchase discounts and debt issuance costs, were approximately $487.4 million. Each $1,000 principal amount of the Notes will initially be convertible into 9.0244 shares of our common stock, (the "Conversion Option"), which is equivalent to an initial conversion price of approximately $110.81 per share. The Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding November 1, 2022, only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on September 30, 2018 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding fiscal quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the trading price (as defined in the indenture governing the Notes) per $1,000 principal amount 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 for the Notes on each such trading day; or (3) upon the occurrence of specified corporate events as set forth in the indenture governing the Notes. On or after November 1, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes, in multiples of $1,000 principal amount, at the option of the holder regardless of the foregoing circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying and/or delivering, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election, in the manner and subject to the terms and conditions provided in the indenture governing the Notes. The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the indenture governing the Notes. In addition, following certain corporate events that occur prior to the maturity date, the Company will increase the conversion rate, in certain circumstances, for a holder who elects to convert its Notes in connection with such a corporate event. During the three and nine months ended December 31, 2018, the conditions allowing holders of the Notes to convert have not been met. The Notes are therefore not convertible during the three and nine months ended December 31, 2018 and are classified as long-term debt for such periods.

In accounting for the transaction, the Notes were separated into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated conversion feature. The carrying amount of the equity component representing the Conversion Option was $102.5 million and was determined by deducting the fair value of the liability component from the proceeds received upon issuance of the Notes. The equity component was recorded in additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the Notes over the liability component (the "Debt Discount") is amortized to interest expense over the contractual term of the Notes at an effective interest rate of 5.74%.

In accounting for the debt issuance costs of $11.6 million related to the Notes, the Company allocated the total amount incurred to the liability and equity components using the same proportions as the proceeds of the Notes. Issuance costs attributable to the liability component were $9.2 million and will be amortized to interest expense using the effective interest method over the contractual term of the Notes. Issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital.

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

	December 31, 2018	March 31, 2018
Principal	$500,250	$ —
Unamortized debt discount	(91,087)	—
Unamortized issuance costs	(8,318)	—
Net carrying amount	$400,845	$ —

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Amortization of debt discount	$ 4,654	—	$ 11,421	—
Amortization of issuance costs	367	—	891	—
Contractual interest expense	625	—	1,549	—
Total interest expense	$ 5,646	—	$ 13,861	—

In connection with the offering of the Notes, the Company entered into privately negotiated capped call transactions with certain counterparties, (the “Capped Calls”). The Capped Calls each have an initial strike price of approximately $110.81 per share, subject to certain adjustments, which correspond to the initial conversion price of the Notes. The Capped Calls have initial cap prices of $173.82 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, approximately 4.5 million shares of our common stock. Conditions that cause adjustments to the initial strike price of the Capped Calls mirror conditions that result in corresponding adjustments for the Notes. The Capped Calls are generally intended to reduce potential dilution to holders of the Company’s common stock upon any conversion of the Notes and/or offset any cash payments New Relic is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset, as the case may be, subject to a cap based on the cap price. For accounting purposes, the Capped Calls are separate transactions, and not part of the terms of the Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders’ equity and are not accounted for as derivatives. The cost of $63.2 million incurred in connection with the Capped Calls was recorded as a reduction to additional paid-in capital

8. Goodwill and Purchased Intangibles Assets

The changes in the carrying amount of goodwill for the nine months ended December 31, 2018 consist of the following (in thousands):

Goodwill as of March 31, 2018	$11,828
Goodwill acquired	3,506
Goodwill as of December 31, 2018	$15,334

Purchased intangible assets subject to amortization as of December 31, 2018 consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 7,816	$ (4,422)	$ 3,394

Purchased intangible assets subject to amortization as of March 31, 2018 consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 4,900	$ (3,588)	$ 1,312

Amortization expense of purchased intangible assets was $0.4 million and $0.2 million for the three months ended December 31, 2018 and 2017, respectively, and $0.8 million and $1.0 million for the nine months ended December 31, 2018 and 2017, respectively.

Estimated future amortization expense as of December 31, 2018 is as follows (in thousands):

Fiscal Years Ending March 31,	Estimated Future Amortization Expense
2019 (remaining 3 months)	$ 440
2020	1,496
2021	972
2022	486
	$ 3,394

9. Commitments and Contingencies

Leases—The Company leases office space under non-cancelable operating lease agreements, which expire from 2019 through 2028.

Deferred Rent—Certain of the Company’s operating leases contain rent holidays, allowances, and rent escalation provisions. For these leases, the Company recognizes the related rental expense on a straight-line basis over the life of the lease from the date the Company takes possession of the office and records the difference between amounts charged to operations and amounts paid as deferred rent. These rent holidays, allowances, and rent escalations are considered in determining the straight-line expense to be recorded over the lease term. As of December 31, 2018 and March 31, 2018, $11.7 million and $8.9 million was recorded as deferred rent, respectively.

Rent expense, net of sublease income, for operating leases was $3.8 million and $3.1 million for the three months ended December 31, 2018 and 2017, respectively, and $11.4 million and $8.4 million for the nine months ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under non-cancelable operating leases as of December 31, 2018 were as follows (in thousands):

Fiscal Years Ending March 31,	Operating Leases
2019 (remaining 3 months)	$ 4,021
2020	15,530
2021	15,432
2022	15,077
2023	15,495
Thereafter	45,866
Total minimum future lease payments	$ 111,421

Purchase Commitments—As of December 31, 2018 and March 31, 2018, the Company had purchase commitments of $30.8 million and $26.5 million, respectively, primarily related to data center, cloud and hosting services.

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

On November 5, 2012, CA, Inc. filed suit against the Company in the United States District Court, Eastern District of New York for alleged patent infringement. CA, Inc.'s complaint against the Company claims that certain aspects of the Company's products infringe certain patents held by CA, Inc. Discovery is complete in the case, and the court has ruled on summary judgment motions filed by both parties. A trial date has not been set as of December 31, 2018. The Company cannot at this time predict the likely outcome of this proceeding or estimate the amount or range of loss or possible loss that may arise from it. The Company has not accrued any loss related to the outcome of this case as of December 31, 2018.

Other Contingencies—In the normal course of business, the Company may agree to indemnify third parties with whom it enters into contractual relationships, including customers, lessors, and parties to other transactions with the Company, with respect to certain matters. The Company has agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third-party claims that the Company's products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. To date, the Company has not incurred any costs as a result of such obligations and has not accrued any liabilities related to such obligations in the condensed consolidated financial statements. In addition, the Company indemnifies its officers, directors, and certain key employees while they are serving in good faith in their respective capacities. The Company does not currently believe there is a reasonable possibility that a loss may have been incurred under these indemnification obligations. To date, there have been no claims under any such indemnification provisions.

10. Common Stock and Stockholders' Equity

Employee Stock Purchase Plan—The Company's board of directors adopted, and the Company's stockholders approved, the Company's 2014 Employee Stock Purchase Plan (the "ESPP"), which became effective in December 2014. The ESPP initially reserved and authorized the issuance of up to 1,000,000 shares of common stock. The ESPP provides that the number of shares reserved and available for issuance under the ESPP automatically increases each April, beginning on April 1, 2015, by the lesser of 500,000 shares, 1% of the number of the Company's common stock shares issued and outstanding on the immediately preceding March 31, or such lesser number of shares as determined by the Company's board of directors. For the nine months ended December 31, 2018, 82,851 shares of common stock were purchased under the ESPP. For the nine months ended December 31, 2017, 101,493 shares of common stock were purchased under the ESPP. Stock-based compensation expense recognized related to the ESPP was $1.0 million and $0.6 million for the three months ended December 31, 2018 and 2017, respectively, and $2.5 million and $1.6 million for the nine months ended December 31, 2018 and 2017, respectively. As of December 31, 2018, there were 2,346,386 shares available for issuance under the ESPP.

2008 Equity Incentive Plan—The Company's board of directors adopted, and the Company's stockholders approved, the 2008 Equity Incentive Plan (the "2008 Plan") in February 2008. The 2008 Plan was terminated in connection with the Company's initial public offering, and accordingly, no shares are available for future issuance under this plan. The 2008 Plan continues to govern outstanding awards granted thereunder.

2014 Equity Incentive Plan—The Company's board of directors adopted, and the Company's stockholders approved, the Company's 2014 Equity Incentive Plan (the "2014 Plan"), which became effective in December 2014. The 2014 Plan serves as the successor to the Company's 2008 Plan. The 2014 Plan initially reserved and authorized the issuance of 5,000,000 shares of the Company's common stock. Additionally, shares not issued or subject to outstanding grants under the 2008 Plan upon its termination became available under the 2014 Plan, resulting in a total of 5,184,878 available shares under the 2014 Plan as of the effective date of the 2014 Plan. Pursuant to the terms of the 2014 Plan, any shares subject to outstanding stock options or other stock awards under the 2008 Plan that (i) expire or terminate for any reason prior to exercise or settlement, (ii) are forfeited because of the failure to meet a contingency or condition required to vest such shares or otherwise return to the Company or (iii) are reacquired, withheld (or not issued) to satisfy a tax withholding obligation in connection with an award or to satisfy the purchase price or exercise price of a stock award will become available for issuance pursuant to awards granted under the 2014 Plan. The 2014 Plan provides that the number of shares reserved and available for issuance under the plan automatically increases each April 1, beginning on April 1, 2015, by 5% of the outstanding number of shares of the Company's common stock shares issued and outstanding on the immediately preceding March 31, or such lesser number of shares as determined by the Company's board of directors. As of December 31, 2018, there were 11,662,042 shares available for issuance under the 2014 Plan.

The following table summarizes the Company's stock option and RSU award activities for the nine months ended December 31, 2018 (in thousands, except exercise price, contractual term and fair value information):

	Options Outstanding				RSUs Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value	Number of Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding - April 1, 2018	3,215	$ 22.79	6.7	$ 165,041	2,079	$ 42.31	2.7	$ 154,071
Stock options granted	307	98.32						
RSUs granted					748	96.28		
Stock options exercised	(552)	20.89		41,555				
RSUs vested					(688)	41.38		
Stock options canceled/forfeited	(96)	52.74						
RSUs canceled/forfeited					(248)	50.84		
Outstanding - December 31, 2018	2,874	$ 30.22	6.1	$ 150,780	1,891	$ 62.88	2.7	$ 153,149

Stock-Based Compensation Expense—Aggregate stock-based compensation expense for employees and nonemployees was $14.8 million and $9.9 million for the three months ended December 31, 2018 and 2017, respectively, and $39.6 million and $29.8 million for the nine months ended December 30, 2018 and 2017, respectively.

Cost of revenue, research and development, sales and marketing, and general and administrative expenses were as follows (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Cost of revenue	$934	$587	$2,522	$1,716
Research and development	4,322	2,959	11,443	9,100
Sales and marketing	6,222	3,933	17,040	12,114
General and administrative	3,286	2,454	8,619	6,848
Total stock-based compensation expense	$14,764	$9,933	$39,624	$29,778

As of December 31, 2018, unrecognized stock-based compensation cost related to outstanding unvested stock options was $18.1 million, which is expected to be recognized over a weighted-average period of approximately 2.2 years. As of December 31, 2018, unrecognized stock-based compensation cost related to outstanding unvested stock units was $109.1 million, which is expected to be recognized over a weighted-average period of approximately 2.7 years.

11. Income Taxes

The Company is subject to income tax in the United States as well as other tax jurisdictions in which it conducts business. Earnings from non-U.S. activities are subject to local country income tax. The Company does not provide for federal income taxes on the undistributed earnings of its foreign subsidiaries as such earnings are to be reinvested indefinitely.

The Company recorded an income tax benefit of $0.1 million and income tax provision of $0.2 million for the three months ended December 31, 2018 and 2017, respectively, and an income tax provision of $0.4 million and $0.6 million for the nine months ended December 31, 2018 and 2017, respectively, related to foreign income taxes and state minimum taxes. Based on the available objectively verifiable evidence during the three and nine months ended December 31, 2018, the Company believes it is more likely than not that the tax benefits of the U.S. losses and New Relic K.K losses incurred during the three and nine months ended December 31, 2018 may not be realized. Accordingly, the Company did not record the tax benefits for U.S. losses and New Relic K.K losses incurred during the three and nine months ended December 31, 2018. The primary difference between the effective tax rate and the statutory tax rate relates to the valuation allowance on the Company's U.S. losses and New Relic K.K losses and foreign tax rate differences.

On December 22, 2017, the "Tax Cuts and Jobs Act" (the "TCJA") was enacted into law. The TCJA includes significant changes to the U.S corporate Internal Revenue Code of 1986, as amended (the "Code"). The TCJA changes include, but are not limited to, reduction in the U.S. corporate tax rate from 35% to 21% effective for tax years beginning after December 31, 2017, limitations on the deductibility of executive compensation, interest expense and net operating loss ("NOL") immediate expensing of capital expenditures, transition of the U.S. international taxation from a "worldwide" system to a territorial system of taxation and the introduction of a base erosion anti-abuse tax ("BEAT") and Global Intangible Low Taxed Income ("GILTI") and a new minimum tax on certain foreign earnings.

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allows the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. These provisional tax effects may differ during the measurement period, due to further updates to the calculations related to changes in interpretations and assumptions made, and additional guidance that may be issued by the Department of the U.S. Treasury, the Internal Revenue Service, and other regulatory and standard setting bodies. During the fourth quarter of fiscal year 2018, the Company recorded provisional amounts in its consolidated financial statements. During the third quarter of fiscal year 2019, the Company made adjustments to the provisional amounts, including continued refinements to its deferred taxes. The adjustments made to the provisional amounts include an increase in the depreciation deduction, the "Transition Tax" and NOL carryforward. The analysis and accounting for the tax effects of the TCJA were completed in the third quarter of fiscal 2019. Any subsequent adjustment to these amounts will be recorded as a change in tax law.

12. Net Loss Per Share

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period, less shares subject to repurchase, and excludes any dilutive effects of employee share-based awards and warrants. Diluted net loss per share is computed giving effect to all potential dilutive common shares, including common stock issuable upon exercise of stock options and unvested restricted common stock. As the Company had net losses for each of the three and nine months ended December 31, 2018 and 2017, all potential common shares were determined to be anti-dilutive, resulting in basic and diluted net loss per share being equal. Additionally, the 4.5 million shares underlying the conversion option in the Notes are not considered in the calculation of diluted net loss per share as the effect would be anti-dilutive. The Notes are not convertible as of December 31, 2018. The Company expects to settle the principal amount of the Notes in cash and therefore use the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
Numerator:				
Net loss attributable to New Relic	$(10,103)	$(7,729)	$(24,054)	$(38,354)
Denominator:				
Weighted average shares used to compute net loss per share, basic and diluted	57,096	55,196	56,663	54,534
Net loss attributable to New Relic per share—basic and diluted	$(0.18)	$(0.14)	$(0.42)	$(0.70)

The following outstanding options, unvested shares, and ESPP shares were excluded (as common stock equivalents) from the computation of diluted net loss per common share for the periods presented as their effect would have been antidilutive (in thousands):

	As of December 31,	
	2018	2017
Options to purchase common stock	2,874	3,450
Restricted stock units	1,891	2,038
ESPP shares	62	99
	4,827	5,587

13. Revenue by Geographic Location

The following table shows the Company’s revenue by geographic areas, as determined based on the billing address of its customers (in thousands):

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
United States	$84,731	$62,966	$237,099	$175,765
EMEA	22,533	16,732	63,752	47,225
APAC	10,086	6,918	27,551	19,025
Other	6,661	5,211	18,726	14,595
Total revenue	$124,011	$91,827	$347,128	$256,610

Substantially all of the Company’s long-lived assets were attributable to operations in the United States as of December 31, 2018 and March 31, 2018.

14. Subsequent Events

On January 25, 2019, the Company completed the acquisition of SignifAI, Inc. (“SignifAI”), an event intelligence company specializing in artificial intelligence and machine learning, pursuant to which the Company acquired all of the capital stock of SignifAI for $25.1 million in cash and up to 143,861 shares of the Company’s common stock, for an aggregate preliminary purchase price of $37.0 million.

The acquisition also included a holdback arrangement with certain employees of SignifAI, totaling approximately $12.6 million or 152,840 shares of the Company’s common stock, contingent upon their continuous employment with the Company. As such, compensation expense will be recorded ratably over the respective service period of 24 to 36 months.

The initial purchase price accounting is not yet complete. A preliminary purchase price allocation is currently expected to be included in the Company’s consolidated financial statements for the year ending March 31, 2019. Pro forma results of operations have not been presented because the acquisition was not material to the Company’s results of operations.

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 our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. When reviewing the discussion below, you should keep in mind the substantial risks and uncertainties that could impact our business. In particular, we encourage you to review the risks and uncertainties described in Part II, Item 1A “Risk Factors” included elsewhere in this report. These risks and uncertainties could cause actual results to differ materially from those projected in forward-looking statements contained in this report or implied by past results and trends. Forward-looking statements are statements that attempt to forecast or anticipate future developments in our business, financial condition or results of operations. See the section titled “Special Note Regarding Forward-Looking Statements” in this report. These statements, like all statements in this report, speak only as of their date (unless another date is indicated), and we undertake no obligation to update or revise these statements in light of future developments, except as required by law.

Overview
We are defining a new category of enterprise software that is designed to make every aspect of modern software and infrastructure observable. Our cloud-based platform and suite of products, which we collectively call the New Relic Platform, enable organizations to collect, store, and analyze massive amounts of data in real time so they can better operate their applications and infrastructure, improve their digital customer experience, and achieve greater business success. We design all our products to be highly intuitive and frictionless; they are easy to deploy, and customers can rapidly, often within minutes, see results and realize benefits. Software developers can build better applications faster, as they can see how their software will perform and is actually performing for end-users. IT operations teams can use our products to quickly find and fix performance problems as well as prevent future issues. Business users such as product managers can get answers to how their new product launch is being received, or how a pricing change impacted customer retention, without waiting for help from IT. For each of these audiences - software developers, IT operations, and business users - the New Relic Platform can help them operate their digital business.
We were founded in 2007 and we launched our first product offering, New Relic APM (Application Performance Management), in 2008. Since then, we have broadened our product offerings to support a wide variety of programming languages and frameworks and have added a number of additional products and platform capabilities that now form the New Relic Platform. For example, in 2013, we released New Relic Mobile to support mobile by providing native mobile application performance management for the iOS and Android mobile operating systems; in 2014, we released New Relic Browser to improve browser-side performance, New Relic Synthetics to enable our users to test their software through simulated usage and New Relic Insights to leverage big data analytics; and in 2016, we released New Relic Infrastructure to provide real-time visibility into critical configuration changes that affect a company’s cloud infrastructure.
We sell our products to businesses of all sizes largely through our direct sales organization utilizing a wide range of online and offline sales and marketing activities. The majority of our users visit our website, create an account, and deploy our software. Many users initially subscribe to one of our products to address a particular use case and broaden the usage of our products as they become more familiar with our products. For larger mid-market and enterprise organizations, our sales team focuses on leveraging users in existing accounts to expand our product users and usage across the organization. Although
enterprise organizations constitute a minority of our total paid business accounts, the revenue we receive from enterprise companies now represents a majority of our revenue and revenue growth.
We offer access to the New Relic Platform under subscription plans that also include service and support. Our plans typically have terms of one year, although some of our customers commit for shorter or longer periods. We recognize revenue from subscription fees ratably over the service period. Historically, most of our customers have paid us on a monthly basis. As a result, our deferred revenue at any given period of time had been relatively low. In recent periods we have secured an increased percentage of longer duration commitments, largely because we have sold more to

larger organizations. Because we generally invoice many of these larger organizations less frequently, our deferred revenue has increased over time, and we expect it to continue to increase on a year-over-year basis. However, due to our mix of subscription plans and billing frequencies, we do not believe that changes in our deferred revenue in a given period are directly correlated with our revenue growth.

We have grown rapidly in recent periods, with revenue for the three months ended December 31, 2018 and 2017 of $124.0 million and $91.8 million, respectively, representing year-over-year growth of 35%. For the nine months ended December 31, 2018 and 2017, our revenue was $347.1 million and $256.6 million, respectively, representing year-over-year growth of 35%. We expect that the rate of growth in our revenue will decline over the long term as our business scales, even if our revenue continues to grow in absolute terms. We have continued to make significant expenditures and investments, including in personnel-related costs, sales and marketing, infrastructure and operations, and have incurred net losses in each period since our inception, including net losses of $10.1 million and $7.7 million for the three months ended December 31, 2018 and 2017, respectively, and $24.1 million and $38.4 million for the nine months ended December 31, 2018 and 2017, respectively. Our accumulated deficit as of December 31, 2018 was $288.7 million.

Internationally, we currently offer our products in Europe, Middle East, and Africa (“EMEA”), Asia-Pacific (“APAC”) and, other non-U.S. locations, as determined based on the billing address of our customers, and our revenue from those regions constituted 18%, 8%, and 6%, respectively, of our revenue for the three months ended December 31, 2018, and 18%, 8%, and 6%, respectively, of our revenue for the three months ended December 31, 2017. Our revenue from those regions constituted 18%, 8%, and 6%, respectively, of our revenue for the nine months ended December 31, 2018, and 18%, 7%, and 6%, respectively, of our revenue for the nine months ended December 31, 2017. We believe there is further opportunity to increase our international revenue overall and as a proportion of our revenue, and we are increasingly investing in our international operations and intend to invest in further expanding our footprint in international markets. For example, in October 2018, we announced our European Region, our data hosting center in the European Union, in Frankfurt, Germany to deliver our products to customers across the European Union.

Our employee headcount has increased to 1,627 employees as of December 31, 2018 from 1,253 employees as of December 31, 2017 and we plan to continue to invest aggressively in the growth of our business to take advantage of our market opportunity. For example, we intend to continue to increase our investment in sales and marketing, including further expanding our sales teams, increasing our marketing activities, and growing our international operations, particularly as we increase our sales to larger organizations. In addition, we plan to continue to invest in research and development to enhance and further develop our products and platform capabilities.

While these areas represent significant opportunities for us, we also face significant risks and challenges that we must successfully address in order to sustain the growth of our business and improve our operating results. We are continuing to incur expenses in the near term as we continue to invest in the growth of our sales and expansion of paid business accounts. However, we may not realize any long-term benefit from these investments in the growth of our business. In addition, any investments that we make in sales and marketing or other areas will occur in advance of our experiencing any benefits from such investments, so it may be difficult for us to determine if we are efficiently allocating our resources in these areas. As a result, we have never achieved profitability and we do not expect to be profitable in the near future. Further, our reported revenue, operating results, and cash flows for a given period may not be indicative of future results due to our limited operating history and fluctuations in the number of new employees, the rate of our expansion, the timing of expenses we incur to grow our business and operations, levels of competition, market demand for our products, and any equity or debt financings we may undertake in the future.

Factors Affecting Our Performance

Market Adoption of Our Products. We are defining a new category of enterprise software that is designed to make every aspect of modern software and infrastructure observable. Our success is dependent on the market adoption of this emerging category of software, which may not yet be well understood by the market. For the foreseeable future, we expect that our revenue growth will be primarily driven by the pace of adoption and penetration of our products and we will incur significant expenses associated with educating the market about the benefits of our products.

Retention of and Expansion within Paid Business Accounts. A key factor in our success is the retention and expansion of our subscription agreements with our existing customers. In order for us to continue to grow our business, it is important to generate additional revenue from our existing customers, and we intend to do this in several ways. As we improve our existing products and platform capabilities and introduce new products, we believe that the demand for our products will generally grow. We also believe that there is a significant opportunity for us to increase the number of subscriptions we sell to our current customers as they become more familiar with our products and adopt our products to address additional business use cases. Over the last several years, our focus has shifted from an increase in the total number of paid business accounts to an increase in the annual recurring revenue from our existing and largest paid business accounts. Accordingly, today we view our paid business accounts with annual recurring revenue over $100,000 as a strong indicator of our business, and our success depends in part on our ability to retain and expand within our paid business accounts.

Investment in Sales and Marketing. We expect to continue to invest aggressively in sales and marketing to drive additional revenue. Any investments that we make in sales and marketing will occur in advance of our experiencing any benefits from such investments, so it may be difficult for us to determine if we are efficiently allocating our resources. As we continue to focus sales and marketing investments primarily towards large organizations, this may require more of our resources. In addition, we expect our sales cycle to be longer and less predictable with respect to larger customers, which may delay realization of future sales. We also intend to increase our sales and marketing investment in international markets, such as Europe, and those markets may take longer and be more costly to develop than the U.S. market.

Key Operating Metrics

We review the following key metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make key strategic decisions:

Number of Paid Business Accounts with Annual Recurring Revenue over $100,000 and Number of Paid Business Accounts. We believe that our number of paid business accounts with annual recurring revenue over $100,000 is an indicator of our business as it relates to the acquisition of larger accounts within our overall customer base, including our market penetration of larger mid-market and enterprise customers, as well as deeper penetration into our existing customer base. We define the number of paid business accounts at the end of any particular period as the number of accounts at the end of the period, as identified by a unique account identifier, for which we have recognized revenue on the last day of the period indicated. A single organization or customer may have multiple paid business accounts for separate divisions, segments, or subsidiaries. We define annual recurring revenue as the revenue we would contractually expect to receive from those customers over the following 12 months, without any increase or reduction in any of their subscriptions. We had 816 paid business accounts with annual recurring revenue over $100,000 as of December 31, 2018, which was a 29.7% increase compared to 629 as of December 31, 2017. We believe this increase reflects our continued sales and marketing focus on larger mid-market and enterprise customers. This growth rate has decreased in recent periods and we expect the growth rate at which we add paid business accounts with annual recurring revenue over $100,000 to continue to decrease over time as a result of deeper penetration into the enterprise market.

Further, we believe that the total number of paid business accounts is one indicator of our market penetration, the growth of our business and our potential future prospects. We round the number of total paid business accounts that we report as of a particular date down to the nearest hundred. We had over 17,000 paid business accounts as of December 31, 2018, compared to over 16,600 as of December 31, 2017.

As our primary focus has shifted to enterprise customers, the rate at which we add paid business accounts has decreased over time, and we expect that it may continue to decrease or flatten on a year-over-year basis as we scale our business. On a period-to-period basis, the total number of paid business accounts may fluctuate as a result of various market conditions, such that quarterly fluctuations may or may not be a meaningful indicator of the health of our overall business. Although we currently present the total number of paid business accounts as of each quarter-end, we anticipate that we will cease providing quarterly updates and only update this figure on an annual basis in future presentations beginning with our annual report for fiscal 2019. We believe that updating this metric annually, while still providing investors with a significant understanding of the direction of our business, reduces the chance that an investor could place undue importance on changes in this number from quarter to quarter when assessing the success of our business.

Percentage of Annualized Recurring Revenue from Enterprise Paid Business Accounts. We believe that our ability to increase the percentage of annualized recurring revenue from enterprise paid business accounts relative to our overall business is an important indicator of our success with respect to our focus in recent periods to improve our market penetration with enterprise companies. We define an enterprise paid business account as a paid business account that we measure to have over 1,000 employees. Growth or reduction reflected in this figure would include, in addition to the acquisition, loss or consolidation of enterprise paid business accounts, any changes we make to the categorization of existing paid business accounts, for example to reflect that they have expanded beyond the employee threshold, which we review periodically.

Our percentage of annualized recurring revenue from enterprise paid business accounts was 56% as of December 31, 2018, compared to 52% as of December 31, 2017. We expect the percentage of annualized recurring revenue from enterprise paid business accounts to continue to increase over time.

Annualized Revenue per Average Paid Business Account. We believe that our annualized revenue per average paid business account is another indicator of our business as it relates to the acquisition of larger accounts within our overall customer base, including our market penetration of larger mid-market and enterprise customers, as well as deeper penetration into our existing customer base. We define our annualized revenue per average paid business account as the annualized revenue for the current period divided by the average of the number of paid business accounts at the end of the current period and the end of the prior period. We round down our annualized revenue per average paid business account to the nearest $500.

Our annualized revenue per average paid business account for the quarter ended December 31, 2018 grew to over $29,000, which was an increase of 28.9% compared to over $22,500 for the quarter ended December 31, 2017. We believe this increase reflects our continued focus on larger mid-market and enterprise customers. We have experienced a slight increase in the rate of growth of our annualized revenue per average paid business account year-over-year but we expect this rate to decrease over time as our business scales and we introduce alternative pricing options for our products.

Dollar-Based Net Expansion Rate. Our ability to generate revenue is dependent on our ability to maintain and grow our relationships with our existing customers. We track our performance in this area by measuring our dollar-based net expansion rate. Our dollar-based net expansion rate increases when customers increase their use of our products, use additional products, or upgrade to a higher subscription tier. Our dollar-based net expansion rate is reduced when customers cease using our products, use fewer products, or downgrade to a lower subscription tier.

Our dollar-based net expansion rate compares our recurring subscription revenue from customers from one period to the next. We measure our dollar-based net expansion rate on a monthly basis because many of our customers change their subscriptions more frequently than quarterly or annually. To calculate our annual dollar-based net expansion rate, we first establish the base period monthly recurring revenue from all our customers at the end of a month. This represents the revenue we would contractually expect to receive from those customers over the following month, without any increase or reduction in any of their subscriptions. We then (i) calculate the actual monthly recurring revenue from those same customers at the end of that following month; then (ii) divide that following month's recurring revenue by the base month's recurring revenue to arrive at our monthly net expansion rate; then (iii) calculate a quarterly net expansion rate by compounding the net expansion rates of the three months in the quarter; and then (iv) calculate our annualized net expansion rate by compounding our quarterly net expansion rate over an annual period.

The quarterly fluctuations in our dollar-based net expansion rate are primarily driven by transactions within a particular quarter in which certain customers from larger subscription customers either significantly upgrade or significantly downgrade their subscriptions and by increased sales to existing customers in particular quarters due to sales and marketing campaigns in a particular quarter. In addition, we believe that the composition of our customer base also has an impact on the net expansion rate, such that a relative increase in the number of customers from larger enterprises versus small to medium-sized organizations will tend to increase our quarterly net expansion rate, while a relative increase in the number of customers from small to medium-sized organizations versus larger enterprises will tend to decrease the quarterly net expansion rate, as smaller businesses tend to cancel subscriptions more frequently than larger enterprises. This rate is also impacted by factors including, but not limited to, new product introductions, promotional activity, mix of customer size, and the variable timing of renewals.

Our annualized dollar-based net expansion rate declined to 122.1% for the three-month period ended December 31, 2018 from 125.2% for the three month period ended December 31, 2017. We saw a lower amount of upsell activity relative to our total installed base than the comparable period in the prior year. Although we drove larger upsell activity in absolute dollars during the fiscal quarter, the total installed base was larger than during the comparable period in the prior year, which had a moderating effect on our annualized dollar-based net expansion rate.

Key Components of Results of Operations

Revenue

We offer access to our products under subscription plans that include service and support for one or more of our products. For our paying customers, we offer a variety of pricing plans based on the particular product purchased by an account, number of servers monitored, number of applications monitored, or number of mobile devices monitored. Our plans typically have terms of one year, although some of our customers commit for shorter or longer periods. Historically, most of our customers have paid us on a monthly basis. As a result, our deferred revenue at any given period of time had been relatively low. In recent periods we have secured an increased percentage of longer duration commitments, largely because we have sold more to larger organizations. Because we generally invoice many of these larger organizations less frequently, our deferred revenue has increased over time, and we expect it to continue to increase on a year-over-year basis. However, due to our mix of subscription plans and billing frequencies, we do not believe that changes in our deferred revenue in a given period are directly correlated with our revenue growth.

Additionally, we expect our business to become more seasonal as mid-market and enterprise customers start to represent a larger percentage of our revenues. The first two quarters of each fiscal year usually have lower or potentially negative sequential deferred revenue growth than the third and fourth fiscal quarters, during which we generally benefit from a larger renewal pool and opportunity to upsell existing customers. As a result, over time we could potentially see stronger sequential revenue results in our fourth and first fiscal quarters as our deferred revenue is recognized. We expect that this seasonality will continue to affect our sales and operating results in the future, which can make it difficult to achieve sequential growth in certain financial metrics or could result in sequential declines on a quarterly basis.

Cost of Revenue

Cost of revenue consists of expenses relating to data center operations, hosting-related costs, payment processing fees, depreciation and amortization, consulting costs, and salaries and benefits of operations and global customer support personnel. Salaries and benefits costs associated with our operations and global customer support personnel consist of salaries, benefits, bonuses, and stock-based compensation. We plan to continue increasing the capacity, capability, and reliability of our infrastructure to support the growth of our customer adoption and the number of products we offer, as customer usage continues to grow.

Gross Profit and Margin

Gross profit is revenue less cost of revenue. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin has been, and will continue to be, affected by a number of factors, including the timing and extent of our investments in our operations and global customer support personnel, hosting-related costs, and the amortization of capitalized software. We expect that our gross margin will decline modestly over the long term, although we expect our gross margin to fluctuate from period to period as a result of these factors.

Operating Expenses

Personnel costs, which consist of salaries, benefits, bonuses, stock-based compensation and, with regard to sales and marketing expenses, sales commissions, are the most significant component of our operating expenses. We also incur other non-personnel costs such as an allocation of our general overhead expenses.

Research and Development. Research and development expenses consist primarily of personnel costs and an allocation of our general overhead expenses. We continue to focus our research and development efforts on adding new features and products, and increasing the functionality and enhancing the ease of use of our existing products. We capitalize the portion of our software development costs that meets the criteria for capitalization.

We plan to continue to hire employees for our engineering, product management, and design teams to support our research and development efforts. As a result, we expect our research and development expenses to continue to increase in absolute dollars for the foreseeable future. However, we expect our research and development expenses to decrease modestly as a percentage of our revenue over the long term, although our research and development expenses may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our research and development expenses.

Sales and Marketing. Sales and marketing expenses consist of personnel costs for our sales, marketing, and business development employees and executives. Commissions are considered incremental and recoverable costs of acquiring customer contracts. Under ASC 606 these costs are capitalized and amortized on a straight-line basis over the anticipated period of benefit. Sales and marketing expenses also include the costs of our marketing and brand awareness programs.

We plan to continue investing in sales and marketing globally by increasing the number of our sales personnel, expanding our domestic and international marketing activities, building brand awareness, and sponsoring additional marketing events. We expect our sales and marketing expenses to continue to increase in absolute dollars and continue to be our largest operating expense category for the foreseeable future. However, we expect our sales and marketing expenses to decrease as a percentage of our revenue over the long term, although our sales and marketing expenses may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our sales and marketing expenses.

General and Administrative. General and administrative expenses consist primarily of personnel costs for our administrative, legal, human resources, information technology, finance and accounting employees, and executives.

Also included are non-personnel costs, such as legal and other professional fees.
We plan to continue to expand our business both domestically and internationally, and we expect to increase the size of our general and administrative function to support the growth of our business. We also expect that we will continue to incur

additional general and administrative expenses as a result of being a publicly traded company. As a result, we expect our general and administrative expenses to continue to increase in absolute dollars for the foreseeable future. However, we expect our general and administrative expenses to decrease modestly as a percentage of our revenue over the long term, although our general and administrative expense may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our general and administrative expenses, such as litigation costs.

Other Income (Expense)

Other income (expense) consists primarily of interest income, interest expense, and foreign exchange gains and losses.

Results of Operations

The following tables summarize our consolidated statements of operations data for the periods presented and as a percentage of our revenue for those periods. On April 1, 2018, we adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers regarding Accounting Standards Codification Topic 606 (“ASC 606”), using the modified retrospective method. Results for reporting periods beginning after April 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for the period presented, ASC 605, Revenue Recognition.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(in thousands, except per share amounts)			
Revenue	$124,011	$91,827	$347,128	$256,610
Cost of revenue (1)	20,206	15,671	55,703	46,342
Gross profit	103,805	76,156	291,425	210,268
Operating expenses:				
Research and development (1)	26,182	18,154	72,747	54,686
Sales and marketing (1)	66,461	51,393	185,091	152,015
General and administrative (1)	19,702	14,596	51,293	42,843
Total operating expenses	112,345	84,143	309,131	249,544
Loss from operations	(8,540)	(7,987)	(17,706)	(39,276)
Other income (expense):				
Interest income	3,922	534	9,026	1,503
Interest expense	(5,669)	(21)	(13,932)	(64)
Other income (expense), net	(8)	(45)	(1,285)	117
Loss before income taxes	(10,295)	(7,519)	(23,897)	(37,720)
Income tax provision (benefit)	(106)			