

HUBSPOT INC  
Form 10-K  
February 16, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

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 001-36680

HubSpot, Inc.

(Exact name of registrant as specified in its charter)

Delaware                                      20-2632791  
(State or other jurisdiction of      (I.R.S. Employer  
incorporation or organization)      Identification No.)

25 First Street, 2nd Floor

Cambridge, Massachusetts, 02141

(Address of principal executive offices)

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(888) 482-7768

(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	New York Stock Exchange

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

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

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

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing price of the registrant's common stock on June 30, 2016, as reported by the New York Stock Exchange on such date was

approximately \$1,314,133,000. Shares of the registrant's common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

On February 10, 2017, the registrant had 36,159,380 shares of common stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2017 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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HUBSPOT, INC.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, and these 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,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, gross margin and operating expenses;
- maintaining and expanding our customer base and increasing our average subscription revenue per customer;
- the impact of competition in our industry and innovation by our competitors;
- our anticipated growth and expectations regarding our ability to manage our future growth;
- our predictions about industry and market trends;
- our ability to anticipate and address the evolution of technology and the technological needs of our customers, to roll-out upgrades to our existing software platform and to develop new and enhanced applications to meet the needs of our customers;
- our ability to maintain our brand and inbound marketing thought leadership position;
- the impact of our corporate culture and our ability to attract, hire and retain necessary qualified employees to expand our operations;
- the anticipated effect on our business of litigation to which we are or may become a party;
- our ability to successfully acquire and integrate companies and assets; and
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business both in the United States and internationally.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report on Form 10-K.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in “Risk Factors” and elsewhere in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Annual Report on Form 10-K 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 Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K 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.



## PART 1

### ITEM I. BUSINESS

#### Overview

We provide a cloud-based marketing and sales software platform that enables businesses to deliver an inbound experience. An inbound marketing and sales experience attracts, engages and delights customers by being more relevant, more helpful, more personalized and less interruptive than traditional marketing and sales tactics. Our software platform features integrated applications to help businesses attract visitors to their websites, convert visitors into leads, close leads into customers and delight customers so that they become promoters of those businesses. These integrated applications include social media, search engine optimization, blogging, website content management, marketing automation, email, sales productivity, CRM, analytics and reporting.

People have transformed how they consume information, research products and services, make purchasing decisions and share their views and experiences. Today, customers are blocking out the tactics from the traditional marketing and sales playbook, such as cold calls, unsolicited emails and disruptive advertisements. Customers are taking more control of the purchasing process by using technology, including search engines and social media, to research products and services. To compete effectively, we believe businesses need to deliver an inbound experience by adopting new strategies and technologies to attract, engage and delight customers.

We designed our all-in-one platform from the ground up to enable businesses to provide an inbound experience to their prospects and customers. At the core of our platform is a single inbound database for each business that captures its customer activity throughout the customer lifecycle. Our platform uses our centralized inbound database to empower businesses to create more personalized interactions with customers, such as personalized emails, personalized social media alerts, personalized websites and targeted alerts for sales people. We provide a comprehensive set of integrated applications on our platform, which offers businesses ease of use, power and simplicity. We designed and built our platform to serve a large number of customers of any size with demanding use cases.

While our platform can scale to the enterprise, we focus on selling to mid-market businesses, which we define as businesses that have between 10 and 2,000 employees, because we believe we have significant competitive advantages attracting and serving them. We efficiently reach these businesses at scale through our proven inbound go-to-market approach and more than 3,500 agency partners worldwide. Our platform is particularly suited to serving the needs of mid-market B2B companies. These mid-market businesses seek an integrated, easy to implement and easy to use solution to reach customers and compete with organizations that have larger marketing and sales budgets. As of December 31, 2016, we had 23,226 marketing customers of varying sizes in more than 90 countries, representing almost every industry.

We have a leading brand in the cloud-based inbound marketing and sales software industry. Our brand recognition comes from our thought leadership, including our blogs, which average more than 4.4 million visits each month, and our commitment to innovation. Our founders, Brian Halligan and Dharmesh Shah, wrote the best-selling marketing book *Inbound Marketing: Get Found Using Google, Social Media and Blogs*. We also have one of the largest social media followings in our industry and our INBOUND conference is one of the largest inbound industry events, with over 19,000 registered attendees in 2016.

We sell our platform on a subscription basis. Our total revenue increased to \$271.0 million in 2016, from \$181.9 million in 2015, and from \$115.9 million in 2014, representing year-over-year increases of 49% in 2016 and 57% in 2015. We had net losses of \$45.6 million in 2016, \$46.1 million in 2015, and \$48.2 million in 2014.

#### Industry Background

## The Traditional Business Playbook is Broken

Traditionally, most businesses have followed the same marketing and sales playbook to generate leads, close sales and provide support to their customers; a playbook that uses the same interruptive and generic marketing tactics used for years. Today, however, customers are increasingly selecting their own communication channels and expecting personalized experiences. They are blocking out traditional marketing and sales tactics, such as cold calls, unsolicited emails and disruptive advertisements, and instead, they are using search engines and social media to research products and services before they contact a vendor. Customers are increasingly taking more control of the purchasing process and influencing the purchasing behavior of others.

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Customers are blocking out traditional marketing and sales tactics. Customers are ignoring traditional marketing and sales tactics, often by using technology to block them out. For example:

- There are over 220 million phone numbers that have been placed on the U.S. Do Not Call registry.
- 91% of people have unsubscribed from email marketing lists.
- Email services and spam filters are increasingly enabling customers to filter out and de-prioritize promotional messages.
- Online advertising has limited engagement. According to DoubleClick, as of November 2015, overall 3-month average industry click-through rates on display ads is only 0.2%.

Customers are taking control of the purchasing process. Customers can now get the information they need on their own terms. Using search engines, social media and websites, customers can research vendors and actively seek recommendations from members of their social networks. As a result, customers no longer need to talk to a salesperson until they have completed most of their purchasing decision. This limits the amount of influence businesses can have on purchase decisions when using the traditional business playbook.

Customers are influencing the purchasing behaviors of others. Customers are relying less on the promotional material from businesses and instead using online reviews and input from other purchasers to make their purchasing decision. Such social behavior is self-reinforcing: social buyers themselves are social sellers who influence others' purchasing decisions.

#### Businesses Need a New Playbook—The Inbound Experience

Businesses need a more effective way to attract, engage and delight customers who have access to an abundance of information and an ability to block traditional marketing and sales tactics. To do this, businesses need to deliver an inbound experience, which enables them to be more helpful, more relevant and less interruptive to their customers.

To deliver an inbound experience, businesses need to transform how they market, sell and serve customers.

• **Marketing:** Businesses need to attract potential customers by maximizing search engine rankings, having an engaging social media presence, and creating and distributing useful and relevant content. Businesses need to personalize their customer interactions on websites, in social media and in emails to engage customers.

• **Sales:** Businesses need to build relationships with potential customers and become their trusted advisors. They must learn about and react to the signals being sent by customers through websites, social media and emails, to provide personalized and helpful responses.

• **Service:** Businesses need to delight their customers and inspire them to become vocal promoters by exceeding their expectations. Every customer has a stronger, more public voice today through blogs and social media, underscoring the importance of positive reviews and referrals in building a quality brand.

#### Existing Applications are Not Adequate for an Integrated Inbound Experience

Today, businesses often use a variety of point applications for their marketing and sales efforts, including advertising, marketing automation, content management, blogging, social media management, analytics, sales productivity and CRM. Most of these point applications were not designed to deliver an inbound experience. Typically, they do not provide a central view of all customer interactions across channels, are difficult and expensive to implement and use together, and make it hard to measure results. We believe that these existing point applications were not designed with the platform, architecture and functionality necessary to deliver a seamless integrated inbound experience.

**Not Designed for an Inbound Experience.** Traditional marketing applications rely on advertising and cold calling for lead generation instead of inbound methods. These applications are not designed to personalize and optimize every interaction with customers on websites, in social media and by email across devices, and do not typically allow sales and service teams to see the signals their prospects are sending in real time.

No Centralized Inbound Database of Customer Interactions. Businesses typically need to use one point application for website content management, a different point application for blogging, another point application for social media management, another point application for email and marketing automation, another point application for content personalization, another point application for analytics, another point application for sales management and CRM, and yet another point application to alert salespeople of key customer signals in real time. This disparate collection of point applications makes it difficult to get a 360-degree view of a customer's interactions and use that data to provide a better customer experience and drive a more effective marketing and sales process.

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**Difficult and Expensive to Implement and Use.** Using a collection of disparate point applications means a separate implementation process for each. Often businesses will need to use outside consultants or hire new employees with specific technical expertise to implement and use these different applications, resulting in significant additional costs. This collection of disparate point applications also requires that businesses manage a variety of different log-ins and user interfaces, as well as get support from different vendors, often just to do something the business sees as one process, such as running a marketing campaign. While ease of implementation and use are important for businesses of all sizes, they are critical for mid-market businesses.

**Hard to Measure Results.** Because all the customer touchpoints through the marketing, sales and service processes are typically stored in different disconnected point applications, it is very difficult to get a 360-degree view of a customer's interactions and measure the effectiveness of marketing and sales programs. Businesses will often purchase yet another application to try to measure results across their multiple applications, adding even more expense and complexity to an already complex collection of different point applications.

### Market Opportunity

We believe there is a large market opportunity created by the fundamental transformation in marketing and sales. Businesses of nearly all sizes and in nearly all industries can benefit from delivering an inbound experience to attract, engage and delight their customers. We focus on selling our platform to mid-market businesses. As of December 31, 2016, we had 23,226 marketing customers, and our average subscription revenue per customer for the year ended December 31, 2016 was \$12,197. According to AMI Partners, in 2014, there were 1.6 million of these mid-market businesses with a website presence in the United States and Canada and 1.4 million in Europe. According to a January 2014 study by Mintigo of 186,500 U.S.-based B2B companies of varying sizes, only 3% of those companies had implemented any of the most common marketing automation applications.

We believe our platform addresses several segments of existing marketing, sales and services software and that spending in each of these segments will increasingly shift to platforms that enable an inbound experience. According to a May 2014 report by IDC, worldwide spending on CRM applications, including marketing automation, sales automation, customer service and contact center, is expected to grow to \$31.7 billion in 2018.

### Advantages of Our Solution

We provide a cloud-based, all-in-one inbound marketing and sales software platform that helps businesses attract, engage and delight customers throughout the customer lifecycle. Our platform features a central inbound database of customer interactions and integrated applications to help businesses attract visitors to their websites, convert visitors into leads, close leads into customers and delight customers so they become promoters of those businesses.

**Designed for an Inbound Experience.** Our platform was architected from the ground up to enable businesses to transform their marketing and sales playbook to meet the demands of today's customers. Our platform includes integrated applications to help businesses efficiently attract more customers through search engine optimization, social media, blogging and other useful content. In addition, our platform is designed to help businesses personalize and optimize interactions with their customers through websites, landing pages, social media and emails, and across devices.

**Ease of Use of All-In-One Platform.** We provide a set of integrated applications on a common platform, which offers businesses ease of use and simplicity. Our platform has one login, one user interface, one inbound database and one number to call for support: 888-HUBSPOT. Our platform is designed to be used by people without technical training, does not require an expert or technical system administrator and was built to make it easy to get started. Because of its ease of use and integration, our platform enables businesses to focus on attracting, engaging and delighting customers, instead of spending time and money coordinating their marketing and sales efforts across multiple point applications.

**Power of All-In-One Platform.** At the core of our platform is a single inbound database for each business that captures its customer activity throughout the customer lifecycle. For example, our platform creates a unified timeline incorporating all the interactions with a particular person. If a business's customer visits its website, comments on its blog, opens an email it sent, interacts with the business on Twitter, watches one of its videos, fills out a form, or is marked as a sales opportunity by its salesperson, all of that activity is centrally managed and presented on the timeline for that contact and is available for use across our applications. Our platform also makes it easy to use the customer data to empower more personalized interactions with the customer, such as personalized social media alerts, personalized content on a business's website, personalized emails and targeted alerts to its sales people.

**Clear ROI for Customers.** Our platform delivers proven and measurable results for our customers. Our customers often experience significant increases in the volume of traffic to their websites, the volume of inbound leads and the rate of converting leads into customers.

**Scalability.** Our platform was designed and built to serve a large number of customers of any size and with demanding use cases. Our platform currently processes billions of data points each week, and we use leading global cloud infrastructure providers and our own automation technology to dynamically allocate capacity to handle processing workloads of all sizes. We have built our platform on modern technologies, including HBase and Hadoop, which we believe are more scalable than traditional database technologies. Our scalability gives us flexibility for future growth and enables us to service a large variety of businesses of different sizes across different industries.

**Extendable and Open Architecture.** Our platform features a variety of open APIs that allows easy integration of our platform with other applications. We enable our customers to connect our platform to their other applications, including CRM and ecommerce applications. By connecting third-party applications, our customers can leverage our centralized inbound database to perform additional functions and analysis.

### Our Competitive Strengths

We believe that our market leadership position is based on the following key strengths:

**Leading Platform.** We have designed and built a world-class, inbound marketing and sales software platform. We believe our customers choose our platform over others because of its powerful, integrated and easy to use applications. Independent customer reviews and ratings of our platform compared to other applications show that we have high customer satisfaction.

**Market Leadership and Strong Brand.** We are a recognized thought leader in the cloud-based inbound marketing and sales software industry with a leading brand. Our founders, Brian Halligan and Dharmesh Shah, wrote the best-selling marketing book *Inbound Marketing: Get Found Using Google, Social Media and Blogs*. More than 90,000 copies have been sold and it is available in nine languages. There are more than 150 self-organized HubSpot user groups. We also have over 2.3 million followers and fans among Twitter, Facebook, LinkedIn and Instagram as of December 31, 2016, including approximately 150,000 members of LinkedIn who belong to our inbound marketers group. Our INBOUND conference is one of the largest inbound industry conference events with attendance increasing from 1,100 in 2011 to over 19,000 registered attendees in 2016. We believe that it is inherently hard to replicate the number of websites that link to us, the volume of useful content we have published, our large social media following, the breadth of our search engine rankings and our overall brand strength because these assets cannot be easily purchased or built.

**Large and Growing Agency Partner Program.** More than 3,500 agencies partner with us for the value of our platform to their business including being able to offer new inbound marketing and sales services to their clients which can grow their revenue per customer, attract new customers and increase the portion of their clients on a retainer relationship. We believe that the wide adoption of our platform in the marketing agency industry is evidence that we are becoming an industry standard. Marketing agency partners and customers referred to us by our marketing agency partners represented approximately 49% of our customers as of December 31, 2016, and approximately 40% of our revenue for the year ended December 31, 2016. These marketing agency partners help us to promote the vision of the inbound experience, efficiently reach new mid-market businesses at scale and provide our mutual customers with more diverse and higher-touch services.

**Mid-Market Focus.** We believe we have significant competitive advantages reaching mid-market businesses and efficiently reach this market at scale as a result of our proven inbound go-to-market approach and our agency partner channel. In 2016, over 85% of the new leads we generated and over 90% of our new customers were from inbound marketing and did not have any advertising costs associated with them. We believe our large inbound marketing footprint and agency partner program provide competitive advantages in reaching mid-market businesses.

**Powerful Network Effects.** We have built a large and growing ecosystem around our platform and company. We have built what we believe is the largest engaged audience in our industry, which now comprises more than 6 million people between visitors to our blogs, Twitter followers, Facebook fans, LinkedIn connections. We have attracted more

than 3,500 marketing agency partners worldwide who promote our brand and extend our marketing and sales reach. Thousands of our customers integrate third-party applications with our platform using our built-in connectors and third-party developer partners. We have trained and currently certified more than 60,000 marketers on inbound marketing. Our annual INBOUND conference attracted more than 19,000 registered attendees in 2016. We believe this ecosystem drives more businesses and professionals to embrace the inbound playbook. As our engaged audience grows, more agencies partner with us, more third-party developers integrate their applications with our platform, and more professionals complete our certification programs, all of which drive more businesses to adopt our platform.

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## Our Growth Strategy

The key elements to our growth strategy are:

**Grow Our U.S. Customer Base.** The market for our platform is large and underserved. Mid-market businesses are particularly underserved by existing point application vendors and often lack sufficient resources to implement complex solutions. Our all-in-one platform allows mid-market businesses to efficiently adopt and execute an effective inbound marketing and sales strategy to help them expand and grow. We will continue to leverage our inbound go-to-market approach and our network of agency partners to keep growing our domestic business.

**Increase Revenue from Existing Customers.** With 23,226 marketing customers in more than 90 countries spanning many industries, we believe we have a significant opportunity to increase revenue from our existing customers. We plan to increase revenue from our existing customers by expanding their use of our platform, selling to other parts of their organizations, cross-selling our sales products to existing marketing customers and vice versa through touchless or low touch in product purchases, and upselling additional offerings and features. Our scalable pricing model allows us to capture more spend as our customers grow, increase the number of their customers and prospects managed on our platform, and require additional functionality available from our higher price tiers and add-ons, providing us with a substantial opportunity to increase the lifetime value of our customer relationships.

**Keep Expanding Internationally.** There is a significant opportunity for our inbound platform outside of the United States. As of December 31, 2016, approximately 31% of our marketing customers were located outside of the United States and these customers generated approximately 28% of our total revenue for the year ended December 31, 2016, and we sell to those foreign customers from our U.S., European, and Asia Pacific based operations. We intend to grow our presence in international markets through additional investments in local sales, marketing and professional service capabilities, as well as by leveraging our agency partner network. We opened our first international office in Dublin, Ireland focused on the European market in January 2013 and our second, third and fourth international offices focused on the Asia Pacific market in Sydney, Australia in August 2014, Singapore in October 2015, and Tokyo, Japan in July 2016. We have announced plans to open a fifth international office in Berlin, Germany in 2017. We already have significant website traffic from regions outside the United States and we believe that markets outside the United States represent a significant growth opportunity.

**Continue to Innovate and Expand Our Platform.** Mid-market businesses are increasingly realizing the value of having an integrated marketing, sales and service platform. We believe we are well positioned to capitalize on this opportunity by introducing new products and applications to extend the functionality of our platform. For example, in 2015, we launched two new add-ons to the marketing platform: HubSpot Reporting, which enables marketing and sales users to explore the data within their marketing platform using custom analytics and reports; and HubSpot Ads which was launched in partnership with Google and LinkedIn and enables customers to manage their ad spend from within the HubSpot product. We launched our freemium Marketing Free and Marketing Starter products (f/k/a LeadIn) in 2015, enabling customers to analyze their website traffic and generate more leads from their website. We also launched a new paid sales product in 2015, HubSpot Sales Pro (f/k/a Sidekick for Business), which is an expansion of our HubSpot Sales Free product and enables Sales reps to identify, connect, and engage with new leads. Finally, we added significant functionality to our core marketing, sales and CRM products throughout the year, launching updates that include a redesign of our core content management system, a new predictive lead scoring application, and a new integrations platform called HubSpot Connect.

**Selectively Pursue Acquisitions.** We plan to selectively pursue acquisitions of complementary businesses, technologies and teams that would allow us to add new features and functionalities to our platform and accelerate the pace of our innovation.

## Our Products

## All-in-one Marketing and Sales Platform

HubSpot's platform, also referred to as our growth stack, is a collection of integrated tools that gives businesses everything they need to attract, engage, close, and delight new customers in a unified suite of tools. Every tool in our growth stack (HubSpot Marketing, HubSpot Sales, and HubSpot CRM) is available in both free and paid tiers with gradually increasing levels of functionality that support the needs of our customers as they see success with our tools and their businesses grow.

At the core of our platform is a single inbound database of customer information. This allows a complete view of customer interactions across all of our integrated applications, giving our platform substantial power. This integration makes it possible to personalize every aspect of the customer web content, social media engagement and email messages across devices, including mobile. The integrated applications on our platform have a common user interface, are accessed through a single login and are based on our inbound database.



## HubSpot Marketing

Our core product, HubSpot Marketing, is an all-in-one toolset for marketers to attract, engage, and nurture new leads towards sales readiness, and over the entire customer lifecycle. HubSpot Marketing is available in a free and several paid tiers, and can be used standalone, with HubSpot CRM, and/or any version of HubSpot Sales. The features of HubSpot Marketing are explained below.

**Marketing Automation and Email.** Businesses can execute, manage and analyze sophisticated email marketing campaigns and segment and personalize emails using sophisticated triggers such as viewing a video, completing a form, or interacting via social media. Features include:

• **Advanced Segmentation** —Use all the information in the inbound database to create highly segmented groups for more personalized and engaging email marketing.

- **Personalization** —Dynamically personalize the content of emails including the sender, images and text based on the information about the recipient in the inbound database.

• **Sophisticated Campaign Workflows** —Create sophisticated marketing automation workflows that continue to automatically engage leads by using, for example, time delays of various lengths and multiple follow up emails that are customized based on different user actions or behavior.

• **Lead Scoring** — Lead scoring in HubSpot uses machine learning to understand the quality of, and predict the likelihood that, a lead has potential to become a customer. Lead score in HubSpot takes hundreds of factors about a prospect into consideration such as visiting specific web pages, watching certain videos, opening certain emails, having a certain job title, or other custom data in the inbound database. Customers can define which leads are sent to the CRM system for sales engagement based on these criteria.

• **Analysis**— Measure email open rates, click-through rates and other email marketing metrics.

**Content Optimization System (COS).** Our COS applications are part content management system and part personalization engine, enabling businesses to create new and edit existing web content while also personalizing their websites for different visitors and optimizing their websites to convert more visitors into leads and customers.

Features include:

• **Business Blogging** —Designed for lead generation, our blog includes “get-as-you-type” SEO tips for how to improve articles, built-in social media integration to automatically post new articles in social media, mobile optimization that automatically optimizes posts for smartphones and tablets, and integrated analytics that allow marketers to see the performance of each post and their blogging overall.

• **Website Pages** —A flexible system to build modern websites with responsive design, which means websites are dynamically optimized for desktops, laptops, tablets and smartphones without the need for maintaining different website versions for each device type.

• **Smart Content** —Display customized text, images or other content to customers to provide a personalized experience based on any information stored in the inbound database.

• **Landing Pages and Forms** —Easily build lead-capture forms and create landing pages with the ability to test and optimize different designs to improve conversion rates.

• **Calls-to-Action** —Create buttons and callouts that direct visitors to landing pages, with the ability to optimize click-through rates by testing different designs and messages.

**Social Media.** Our social media applications allow businesses to monitor, publish and track social media across Facebook, LinkedIn, Twitter and Google+, leveraging the personalized information about each contact stored in the inbound database. Features include:

• **Monitoring** —Monitor social media messages not just for keywords, but also using segmented lists created based on criteria in the inbound database such as active sales opportunities or customers who purchased in the last 30 days, and set alerts to be sent when new messages are posted meeting these criteria.

• **Publishing** —Schedule messages to be posted at any time in multiple Twitter accounts, as well as personal pages, business pages and groups on LinkedIn, Google+ and Facebook.

•Analysis —Measure which posts get the most engagement including the number of website visits, new contacts and new customers generated from each post.

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Search Engine Optimization (SEO). Our SEO applications are tightly integrated into all of the content applications on our platform, making it easy to select the right keywords and optimize content to attract more visitors from search engines. Features include:

• **Keywords** —Identify which search terms are used more frequently and are better opportunities, and track results on each keyword.

• **Page Performance** —Generate automated diagnostic reports about which web pages are not properly optimized, including instructions on what to fix and how to fix it.

CRM Sync. Businesses using a third party CRM system (e.g., Salesforce) can synchronize information from our inbound database with their CRM application, enabling seamless transition from marketing to sales. Our native and third-party CRM integration features include:

• **Bi-directional Syncing** —Changes in HubSpot and the CRM are automatically updated in the other system regardless of where the information originated.

• **Inclusion Lists** —Define which leads automatically sync to the CRM by setting conditions based on lead score or any other criteria in the inbound database.

• **Lead Intelligence** —Information from the contact timeline such as recent website visit or social media engagement is displayed in the CRM making it easy for sales to leverage the data in the inbound database.

• **Closed Loop Reporting** —Track which marketing activity was the original source of a new customer and measure in aggregate which campaigns are driving more or less sales.

Reporting and Analytics. Businesses can use our reporting and analytics functionality built into our platform to measure which activities are attracting the most new leads and customers, develop a deeper understanding of their customers and measure the effectiveness of campaigns across the customer lifecycle.

• **Sources** —Track website visitors, new leads and new customers according to how they first found a business, helping to measure the effectiveness of different marketing channels.

• **Competitors** —Track key inbound metrics against competition including the number of inbound links, social media followers and the relative website traffic.

• **Campaigns** —Create collections of different marketing and sales assets like blog posts, emails, landing pages and keywords and track them all in one place to measure the impact of a specific marketing and sales campaign.

• **Attribution** —Identify what marketing activity led to a key event in the marketing and sales process, such as conversion into a lead or a purchase, using various analytical models.

• **Events** —Track and analyze a variety of custom events such as video views or custom webpage interactions to understand the effect those actions have on lead generation and sales.

• **Revenue** —Report on the revenue generated by marketing and sales activity, including segmentation by deal stage, amount and close date.

## HubSpot CRM

The second tool in the HubSpot Growth Stack, HubSpot CRM was introduced in 2014 as a free CRM system that businesses can track their interactions with contacts and companies, manage their sales activities and report on their pipeline and sales. HubSpot CRM is a free product that can be used standalone, or with any version of HubSpot Marketing and/or HubSpot Sales. Features of HubSpot CRM are explained below.

• **Contact Management** — Manage contact information for people and companies. Track the history of every interaction with those contacts.

• **Salesforce Automation** — Track active sales deals, store notes, track calls and meetings, and create tasks and reminders for follow-up with customers.

• **Pipeline Reporting** — Report on what deals are in what stage of the sales process with visibility for sales representatives and aggregate reporting for sales managers.

## HubSpot Sales

The third tool in the HubSpot Growth Stack, HubSpot Sales was introduced in 2015 to enhance the productivity and effectiveness of sales representatives. Businesses can empower their teams with tools that deliver a personalized experience for prospects with less work for sales representatives. Sales professionals can track the signals being sent by potential customers, including email engagement and web-site visits, and easily discover new contacts and connections with other businesses. HubSpot Sales is available in both free and paid tiers that can be used with HubSpot CRM or a third party CRM system, and/or any version of HubSpot Marketing.

- ✦ **Email Engagement Notifications** —Get real-time alerts when email messages are opened or clicked by potential customers to know when they are engaged with messages.
- ✦ **Sequences** —Schedule a series of personalized emails to be sent to a prospect all at once to eliminate reminders and extensive task lists.
- ✦ **Meetings**— Expose a sales representative’s calendar for prospects to book meetings at a time most convenient for them, without having to coordinate a preferred meeting time over email.
- ✦ **Calling**— Call prospects from HubSpot CRM, Outlook, or Gmail and have the call logged automatically within HubSpot CRM.
- ✦ **New Lead and Website Visit Alerts** — Receive real-time notifications of new leads assigned to a salesperson as well as notifications about when and where an existing lead visits a business’s website to help salespeople more easily engage with potential customers.
- ✦ **Email Templates and CRM Tracking** — Use the email templates stored in salesforce.com or HubSpot CRM directly in Microsoft Outlook and Gmail. Log emails in a CRM so teams can deliver a better overall experience to prospects.
- ✦ **Contact Insights** —Learn about more contacts at a potential customer when visiting its website or sending an email, identify other connections to a potential customer and add new contacts to a CRM with one click.

## Product Packaging

### Pricing for HubSpot Marketing

HubSpot Marketing is priced based on product plans and number of contacts. There is one free and four paid plans, each of which includes key functionality of our core platform but also includes different applications to meet the needs of the various businesses we serve.

- ✦ **HubSpot Marketing Free** is a basic set of conversion tools that are designed to be an introduction to HubSpot’s marketing functionality.
- ✦ **HubSpot Marketing Starter** is a \$50/month extension of HubSpot Marketing Free that adds basic email marketing functionality to HubSpot Marketing Free.
- ✦ **HubSpot Marketing Basic** is an entry level marketing suite that starts at \$2,400 per year. This plan includes our platform with applications such as blogging, landing pages, Social Inbox, email marketing, and analytics and reporting.
  - **HubSpot Marketing Professional** is our plan for professional marketers starting at \$9,600 per year. This plan includes the platform with all the applications included in HubSpot Basic plus more advanced applications such as CRM integration, marketing automation, A/B testing, and content personalization.
- ✦ **HubSpot Marketing Enterprise** is an advanced plan for marketing teams starting at \$28,800 per year. This plan includes our platform with all the applications included in HubSpot Pro, plus more sophisticated applications such as predictive lead scoring, tracking custom events and advanced reporting capabilities.

Pricing for all plans is on a subscription basis and customers pay additional fees above the starting prices based on how many contacts will be stored and tracked in the inbound database. We generate additional revenue based on the purchase of additional subscriptions and applications and the number of account users, subdomains and website visits.

## Add-Ons

We also sell applications that are not included in any of our above plans on an add-on basis.

- Website allows a business to build, edit and manage an entire website on our platform. Website has a per-month fee and requires HubSpot Marketing Basic, Pro, or Enterprise.

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• Ads allows customers to create, manage, and optimize paid advertising campaigns across Facebook Ads, Google AdWords, and LinkedIn Sponsored Updates. HubSpot leverages data from the inbound database to easily display the return on investment of different campaigns, something that is traditionally difficult for B2B marketers to deduce. HubSpot also provides intelligent suggestions for optimizing campaigns to produce greater ROI. Ads has a per-month fee and requires HubSpot Marketing Basic, Pro, or Enterprise.

• Reports consolidates all of the essential reports into one customizable screen for both marketing and sales to view all metrics in one place. Reports has a per-month fee and requires HubSpot CRM, and/or HubSpot Marketing Basic, Pro, or Enterprise.

#### Pricing for HubSpot Sales

HubSpot Sales is available in two versions, either of which can be used standalone, in conjunction with HubSpot CRM and/or a third party CRM system, and/or any version of HubSpot Marketing.

• HubSpot Sales Free gives salespeople a basic level of access to many of the most popular features of HubSpot Sales such as email open & click tracking, email templates, and contact insights.

• HubSpot Sales Pro is our plan for professional sales teams that includes all the features of HubSpot Sales for \$50/user/month.

#### Our Services

We complement our product offerings with professional services and support. The majority of our services and support is offered over the phone and via web meeting technology rather than in-person, which is a more efficient business model for us and more cost-effective for our customers.

**Professional Services.** We offer professional services to educate and train customers on how to leverage our software platform and inbound marketing methodology to transform how their business attracts, engages and delights customers. Depending on which product plan and professional services a customer buys, it either receives group training and education in online or in-person classes or one-on-one training and advice from one of our implementation specialists by phone and web meeting. Our professional services are also available to customers who need additional assistance on a one-time or ongoing basis for an additional fee.

**Support.** In addition to assistance provided by our online articles and customer discussion forums, we offer phone and email-based support staffed in the United States, Ireland, Australia, and Singapore, which is included in the cost of a subscription for our marketing product. We strive to maintain an exceptional quality of customer service. We continuously monitor key customer service metrics such as phone hold time, ticket response time and ticket resolution rates, and we monitor the customer satisfaction of our customer support interactions. We believe our customer support is an important reason why businesses choose our platform and recommend it to their colleagues.

#### Our Marketing Customers

As of December 31, 2016 we had 23,226 marketing customers in more than 90 countries, representing many industries. No single marketing customer represented more than 1% of our revenue in 2016, 2015 or 2014.

#### Our Technology

We have 23,226 marketing customers that have chosen us as their marketing platform, which we architected and built to be secure, highly distributed and highly scalable. Since our founding, we have embraced rapid, iterative product development lifecycles, cloud automation and open-source technologies, including big data platforms, to power marketing and sales programs and provide insights not previously possible or available.

Our platform is a multi-tenant, single code-based, globally available software-as-a-service delivered through web browsers or mobile applications. Our commitment to a highly available, reliable and scalable platform for businesses

of all sizes is accomplished through the use of these technologies.

**Modern Database Architecture.** We process billions of data points weekly across various channels, including social media, email, SEO and website visits, and continue to drive nearly real-time analytics across these channels. This is possible because we built our database from the ground up using distributed big data technologies such as HBase and Hadoop to both process and analyze the large amounts of data we collect in our inbound database. Using modern database technologies, we can provide actionable insights across disparate data-sets in a manner not easily achievable or cost effectively, at scale or efficiently, with traditional databases or platform architectures.

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**Agility.** Our infrastructure and development and software release processes allow us to update our platform for specific groups of customers or our entire customer base at any time. This means we can rapidly innovate and deliver new functionality frequently, without waiting for quarterly or annual release cycles. We typically deploy updates to our software platform hundreds of times a week, enabling us to gather immediate customer feedback and improve our product quickly and continuously.

**Cost leverage.** Because our platform was built on an almost exclusive footprint of open-source software and designed to operate in cloud-based data-centers, we have benefited from large-scale price reductions by these cloud computing service providers as they continue to innovate and compete for market share. As our processing volume continues to grow, we continue to receive larger volume discounts on a per-unit basis for costs such as cost for storage, bandwidth and computing capacity. We also believe that our extensive use, and contribution to, open-source software will provide additional leverage as we scale our platform and infrastructure.

**Scalability.** By leveraging leading cloud infrastructure providers along with our automated technology stack, we are able to scale workloads of varying sizes at any time. This allows us to handle customers of all sizes and demands without traditional operational limitations such as network bandwidth, computing cycles, or storage capacity as we can scale our platform on-demand.

**Reliability.** Customer data is distributed and processed across multiple data centers within a region to provide redundancy. We built our platform on a distributed computing architecture with no single points of failure and we operate across data-center boundaries daily. In addition to data-center level redundancy, this architecture supports multiple live copies of each data set along with snapshot capabilities for faster, point-in-time data recovery instead of traditional backup and restore methodologies.

**Security.** We leverage industry standard network and perimeter defense technologies, DDoS protection systems (including web application firewalls) and enterprise grade DNS services across multiple vendors. Our data-center providers operate and certify to high industry compliance levels. Due to the broad footprint of our customer base, we regularly test and evaluate our platform with trusted third-party vendors to ensure the security and integrity of our services.

## Marketing and Sales

We believe we are a global leader in implementing an inbound experience in marketing and sales. We believe that our marketing and sales model provides us with a competitive advantage, especially when targeting mid-market businesses, because we can attract and engage these businesses efficiently and at scale.

**Inbound Marketing.** Our marketing team focuses on inbound marketing and attracts an average of over 100,000 new leads per month through our industry-leading blog and other content, free tools, large social media following, high search engine rankings and personalized website and email content. In addition, we are generating leads for new and add-on product purchases through content and offers delivered through our platform to existing customers. Inbound sources generated over 90% of our new customers and over 85% of new leads during 2016. We believe most companies of our size and scale typically have a far lower volume of lead generation with a much larger share of it coming from traditional advertising methods.

**Inbound Direct Sales.** Our sales representatives are based in our offices in Cambridge, Massachusetts, Dublin, Ireland, Sydney, Australia, Singapore, and Tokyo, Japan and use phone, email and web meetings to interact with prospects and customers. The vast majority of revenue generated by our sales representatives originates with inbound leads produced by our marketing efforts. In addition, through our recently launched freemium products and in-product cross-sell offerings, we are starting to close new business with little or no interaction by our sales representatives.



Inbound Channel Sales. In addition to our direct sales team, we have sales representatives that manage relationships with our worldwide network of marketing agency partners who both use our platform for their own businesses and also, on a commissioned basis, refer customers to us. These marketing agencies partner with us not only to leverage our software platform and educational resources, but also to build their own business by offering new services and shifting their revenue mix to include more retainer-based business with a recurring revenue stream.

#### Employees and Culture

Transforming the business world to embrace the inbound experience requires a truly remarkable team. From the very beginning, our company was founded on a fundamental belief in radical transparency, individual autonomy and enlightened empathy.

To that end, we published our “Culture Code,” a document codifying how we went about building a business that employees, customers and partners alike truly love. Our Culture Code slide deck has been viewed approximately 3 million times on LinkedIn’s SlideShare and become an important element of our recruiting efforts. The seven core principles of our Culture Code are:

- We commit maniacally to both our mission and metrics. Our mission is to make the world inbound and transform how organizations attract, engage and delight their customers.
- We look to the long-term and “Solve for the Customer”. We solve for the customer, company, team and self, in that order.
- We share openly and are remarkably transparent. We believe that power is gained by sharing knowledge, not hoarding it and we share nearly all business information with all of our employees no matter their title or position.
- We favor autonomy and take ownership. We trust and empower each employee to use good judgment, and believe that results should matter more than when or where they are produced and that influence should be independent of hierarchy.
- We believe our best perk is amazing people. We value people who are humble, effective and predisposed to action, adaptable to change, remarkable standouts and transparent with others and with themselves.
- We dare to be different and question the status quo. We believe that remarkable outcomes rarely result from modest risk, and we’d rather be failing frequently than never trying new things.
- We recognize that life is short. We encourage candor and criticism as it helps us grow, but remember life is short so always be caring and kind.

Since our founding in 2006, we’ve taken great pride in recruiting and retaining people with HEART (Humility, Effectiveness, Adaptability, Remark-ability and Transparency) at every level of our company. Our employees are passionate about joining our mission of making the world more inbound. In our 10th anniversary year, we were recognized by The Boston Globe and the Boston Business Journal as a top/best place to work, a Best Place to Work for Women and Technology by Fortune, and a top workplace in Australia by JobAdvisor, among other distinctions. Our policies on employee autonomy and transparency have been widely profiled in the media and we are incredibly proud of the culture that we have built. But, at the end of the day, we do not just talk about culture, we measure it, just as we do the rest of our business. We survey employees on a quarterly basis, making sure that our founders and executives review all the feedback, respond, and make adjustments when necessary

As of December 31, 2016 we had 1,597 full-time employees. Of these employees, 1,239 are based in the United States, 262 are located in Ireland, 41 are located in Australia, 42 are located in Singapore, and 13 are located in Japan.

## Competition

Our market is evolving, highly competitive and fragmented, and we expect competition to increase in the future. We believe the principal competitive factors in our market are:

- vision for the market and product strategy and pace of innovation;
- inbound marketing focus and domain expertise;
- integrated all-in-one platform;
- breadth and depth of product functionality;
- ease of use;
- scalable, open architecture;
- time to value and total cost of ownership;
- integration with third-party applications and data sources; and
- name recognition and brand reputation.

We believe we compete favorably with respect to all of these factors.

We face intense competition from other software companies that develop marketing software and from marketing services companies that provide interactive marketing services. Our competitors offer various point applications that provide certain functions and features that we provide, including:

- cloud-based marketing automation providers;
- email marketing software vendors;
- sales force automation and CRM software vendors; and
- large-scale enterprise suites.

In addition, instead of using our platform, some prospective customers may elect to combine disparate point applications, such as content management, marketing automation, analytics and social media management. We expect that new competitors, such as enterprise software vendors that have traditionally focused on enterprise resource planning or other applications supporting back office functions, will develop and introduce, or acquire, applications serving customer-facing and other front office functions.

### Intellectual Property

Our ability to protect our intellectual property, including our technology, will be an important factor in the success and continued growth of our business. We protect our intellectual property through trade secrets law, copyrights, trademarks, patents, and contracts. Some of our technology relies upon third-party licensed intellectual property.

In addition to the foregoing, we have established business procedures designed to maintain the confidentiality of our proprietary information, including the use of confidentiality agreements and assignment of inventions agreements with employees, independent contractors, consultants and companies with which we conduct business.

### Financial Information About Segments

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is regularly evaluated by the chief operating decision makers (“CODMs”), which are the Company’s chief executive officer and chief operating officer, in deciding how to allocate resources and assess performance. The Company’s CODMs evaluate the Company’s financial information and resources and assess the performance of these resources on a consolidated basis. Since the Company operates in one operating segment, all required financial segment information can be found in the consolidated financial statements. See Footnote 7 within the consolidated financial statements for information by geographic area.

### Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on or through our website at [www.hubspot.com](http://www.hubspot.com) as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC. The SEC also maintains a website, [www.sec.gov](http://www.sec.gov), that contains reports and other information regarding issuers that file electronically with the SEC. The public may read and copy any files with the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330. We are not, however, including the information contained on our website, or information that may be accessed through links on our website, as part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

## ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this Annual Report on Form 10-K and in our other public filings before making an investment decision. Our business, prospects, financial condition, or operating results could be harmed by any of these risks, as well as other risks not currently known to us or that we currently consider immaterial. If any of such risks and uncertainties actually occurs, our business, financial condition or operating results could differ materially from the plans, projections and other forward-looking statements included in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this report and in our other public filings. The trading price of our common stock could decline due to any of these risks, and, as a result, you may lose all or part of your investment.

## Risks Related to Our Business and Strategy

We have a history of losses and may not achieve profitability in the future.

We generated net losses of \$45.6 million in 2016, \$46.1 million in 2015, and of \$48.2 million in 2014. As of December 31, 2016, we had an accumulated deficit of \$245.9 million. We will need to generate and sustain increased revenue levels in future periods to become profitable, and, even if we do, we may not be able to maintain or increase our level of profitability. We intend to continue to expend significant funds to grow our marketing and sales operations, develop and enhance our inbound platform, scale our data center infrastructure and services capabilities and expand into new markets. Our efforts to grow our business may be more costly than we expect, and we may not be able to increase our revenue enough to offset our higher operating expenses. We may incur significant losses in the future for a number of reasons, including the other risks described in this Annual Report on Form 10-K, and unforeseen expenses, difficulties, complications and delays and other unknown events. If we are unable to achieve and sustain profitability, the market price of our common stock may significantly decrease.

We are dependent upon customer renewals, the addition of new customers, increased revenue from existing customers and the continued growth of the market for an inbound platform.

We derive, and expect to continue to derive, a substantial portion of our revenue from the sale of subscriptions to our inbound platform. The market for inbound marketing and sales products is still evolving, and competitive dynamics may cause pricing levels to change as the market matures and as existing and new market participants introduce new types of point applications and different approaches to enable businesses to address their respective needs. As a result, we may be forced to reduce the prices we charge for our platform and may be unable to renew existing customer agreements or enter into new customer agreements at the same prices and upon the same terms that we have historically. In addition, our growth strategy involves a scalable pricing model (including freemium versions of our products) intended to increase the lifetime value of our customer relationships as we expand their use of our platform, sell to other parts of their organizations, cross-sell our sales products to existing marketing product customers and vice versa through touchless or low touch in product purchases, and upsell additional offerings and features. If our cross-selling efforts are unsuccessful or if our existing customers do not expand their use of our platform or adopt additional offerings and features our operating results may suffer.

Our subscription renewal rates may decrease, and any decrease could harm our future revenue and operating results.

Our customers have no obligation to renew their subscriptions for our platform after the expiration of their subscription periods, substantially all of which are one year or less. In addition, our customers may seek to renew for lower subscription amounts or for shorter contract lengths. Also, customers may choose not to renew their subscriptions for a variety of reasons, including an inability or failure on the part of a customer to create blogging, social media and other content necessary to realize the benefits of our platform. Our renewal rates may decline or fluctuate as a result of a number of factors, including limited customer resources, pricing changes, adoption and utilization of our platform and add-on applications by our customers, adoption of our new products, customer satisfaction with our platform, the acquisition of our customers by other companies and deteriorating general economic conditions. If our customers do not renew their subscriptions for our platform or decrease the amount they spend with us, our revenue will decline and our business will suffer.

We face significant competition from both established and new companies offering marketing and sales software and other related applications, as well as internally developed software, which may harm our ability to add new customers, retain existing customers and grow our business.

The marketing and sales software market is evolving, highly competitive and significantly fragmented. With the introduction of new technologies and the potential entry of new competitors into the market, we expect competition to persist and intensify in the future, which could harm our ability to increase sales, maintain or increase renewals and maintain our prices.

We face intense competition from other software companies that develop marketing and sales software and from marketing services companies that provide interactive marketing services. Competition could significantly impede our ability to sell subscriptions to our inbound marketing and sales platform on terms favorable to us. Our current and potential competitors may develop and market new technologies that render our existing or future products less competitive, or obsolete. In addition, if these competitors develop products with similar or superior functionality to our platform, we may need to decrease the prices or accept less favorable terms for our platform subscriptions in order to remain competitive. If we are unable to maintain our pricing due to competitive pressures, our margins will be reduced and our operating results will be negatively affected.

Our competitors include:

- cloud-based marketing automation providers;
- email marketing software vendors;
- sales force automation and CRM software vendors; and
- large-scale enterprise suites.

In addition, instead of using our platform, some prospective customers may elect to combine disparate point applications, such as content management, marketing automation, CRM, analytics and social media management. We expect that new competitors, such as enterprise software vendors that have traditionally focused on enterprise resource planning or other applications supporting back office functions, will develop and introduce applications serving customer-facing and other front office functions. This development could have an adverse effect on our business, operating results and financial condition. In addition, sales force automation and CRM system vendors could acquire or develop applications that compete with our marketing software offerings. Some of these companies have acquired social media marketing and other marketing software providers to integrate with their broader offerings.

Our current and potential competitors may have significantly more financial, technical, marketing and other resources than we have, be able to devote greater resources to the development, promotion, sale and support of their products and services, may have more extensive customer bases and broader customer relationships than we have, and may have longer operating histories and greater name recognition than we have. As a result, these competitors may respond faster to new technologies and undertake more extensive marketing campaigns for their products. In a few cases, these vendors may also be able to offer marketing and sales software at little or no additional cost by bundling it with their existing suite of applications. To the extent any of our competitors has existing relationships with potential customers for either marketing software or other applications, those customers may be unwilling to purchase our platform because of their existing relationships with our competitor. If we are unable to compete with such companies, the demand for our inbound platform could substantially decline.

In addition, if one or more of our competitors were to merge or partner with another of our competitors, our ability to compete effectively could be adversely affected. Our competitors may also establish or strengthen cooperative relationships with our current or future strategic distribution and technology partners or other parties with whom we have relationships, thereby limiting our ability to promote and implement our platform. We may not be able to compete successfully against current or future competitors, and competitive pressures may harm our business, operating results and financial condition.

We have experienced rapid growth and organizational change in recent periods and expect continued future growth. If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service or address competitive challenges adequately.

Our head count and operations have grown substantially. For example, we had 1,597 full-time employees as of December 31, 2016, as compared with 1,157 as of December 31, 2015. We opened our first international office in Dublin, Ireland in January 2013, a second international office in Sydney, Australia in August 2014, a third international office in Singapore in October 2015 and a fourth international office in Tokyo in July 2016. We have announced our intention to open an international office in Berlin in the second half of 2017. This growth has placed, and will continue to place, a significant strain on our management, administrative, operational and financial infrastructure. We anticipate further growth will be required to address increases in our product offerings and continued expansion. Our success will depend in part upon our ability to recruit, hire, train, manage and integrate a significant number of qualified managers, technical personnel and employees in specialized roles within our company, including in technology, sales and marketing. If our new employees perform poorly, or if we are unsuccessful in recruiting, hiring, training, managing and integrating these new employees, or retaining these or our existing employees, our business may suffer.

In addition, to manage the expected continued growth of our head count, operations and geographic expansion, we will need to continue to improve our information technology infrastructure, operational, financial and management systems and procedures. Our anticipated additional head count and capital investments will increase our costs, which will make it more difficult for us to address any future revenue shortfalls by reducing expenses in the short term. If we fail to successfully manage our growth, we will be unable to successfully execute our business plan, which could have a negative impact on our business, results of operations or financial condition.

Failure to effectively develop and expand our marketing and sales capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our platform.

To increase customers and achieve broader market acceptance of our inbound platform, we will need to expand our marketing and sales operations, including our sales force and third-party channel partners. We will continue to dedicate significant resources to



inbound sales and marketing programs. The effectiveness of our inbound sales and marketing and third-party channel partners has varied over time and may vary in the future and depends on our ability to maintain and improve our inbound platform. All of these efforts will require us to invest significant financial and other resources. Our business will be seriously harmed if our efforts do not generate a correspondingly significant increase in revenue. We may not achieve anticipated revenue growth from expanding our sales force if we are unable to hire, develop and retain talented sales personnel, if our new sales personnel are unable to achieve desired productivity levels in a reasonable period of time or if our sales and marketing programs are not effective.

The rate of growth of our business depends on the continued participation and level of service of our marketing agency partners.

We rely on our marketing agency partners to provide certain services to our customers, as well as pursue sales of our inbound platform to customers. To the extent we do not attract new marketing agency partners, or existing or new marketing agency partners do not refer a growing number of customers to us, our revenue and operating results would be harmed. In addition, if our marketing agency partners do not continue to provide services to our customers, we would be required to provide such services ourselves either by expanding our internal team or engaging other third-party providers, which would increase our operating costs.

If we cannot maintain our company culture as we grow, we could lose the innovation, teamwork, passion and focus on execution that we believe contribute to our success and our business may be harmed.

We believe that a critical component to our success has been our company culture, which is based on transparency and personal autonomy. We have invested substantial time and resources in building our team within this company culture. Any failure to preserve our culture could negatively affect our ability to retain and recruit personnel and to effectively focus on and pursue our corporate objectives. As we grow as and continue to develop the infrastructure of a public company, we may find it difficult to maintain these important aspects of our company culture. If we fail to maintain our company culture, our business may be adversely impacted.

If we fail to maintain our inbound thought leadership position, our business may suffer.

We believe that maintaining our thought leadership position in inbound marketing, sales and services is an important element in attracting new customers. We devote significant resources to develop and maintain our thought leadership position, with a focus on identifying and interpreting emerging trends in the inbound experience, shaping and guiding industry dialog and creating and sharing the best inbound practices. Our activities related to developing and maintaining our thought leadership may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incurred in such effort. We rely upon the continued services of our management and employees with domain expertise with inbound marketing, sales and services, and the loss of any key employees in this area could harm our competitive position and reputation. If we fail to successfully grow and maintain our thought leadership position, we may not attract enough new customers or retain our existing customers, and our business could suffer.

If we fail to further enhance our brand and maintain our existing strong brand awareness, our ability to expand our customer base will be impaired and our financial condition may suffer.

We believe that our development of the HubSpot brand is critical to achieving widespread awareness of our existing and future inbound experience solutions, and, as a result, is important to attracting new customers and maintaining existing customers. In the past, our efforts to build our brand have involved significant expenses, and we believe that this investment has resulted in strong brand recognition in the business-to-business, or B2B, market. Successful promotion and maintenance of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide a reliable and useful inbound platform at competitive prices. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incurred in

building our brand. If we fail to successfully promote and maintain our brand, our business could suffer.

If we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards and changing customer needs or requirements, our inbound platform may become less competitive.

Our future success depends on our ability to adapt and innovate our inbound platform. To attract new customers and increase revenue from existing customers, we need to continue to enhance and improve our offerings to meet customer needs at prices that our customers are willing to pay. Such efforts will require adding new functionality and responding to technological advancements, which will increase our research and development costs. If we are unable to develop new applications that address our customers' needs, or to enhance and improve our platform in a timely manner, we may not be able to maintain or increase market acceptance of our platform. Our ability to grow is also subject to the risk of future disruptive technologies. Access and use of our inbound platform is provided via the cloud, which, itself, was disruptive to the previous enterprise software model. If new technologies emerge that are able to deliver inbound marketing software and related applications at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely affect our ability to compete.

We rely on our management team and other key employees, and the loss of one or more key employees could harm our business.

Our success and future growth depend upon the continued services of our management team, including our co-founders, Brian Halligan and Dharmesh Shah, and other key employees in the areas of research and development, marketing, sales, services and general and administrative functions. From time to time, there may be changes in our management team resulting from the hiring or departure of executives, which could disrupt our business. We also are dependent on the continued service of our existing software engineers and information technology personnel because of the complexity of our platform, technologies and infrastructure. We may terminate any employee's employment at any time, with or without cause, and any employee may resign at any time, with or without cause. We do not have employment agreements with any of our key personnel. The loss of one or more of our key employees could harm our business.

The failure to attract and retain additional qualified personnel could prevent us from executing our business strategy.

To execute our business strategy, we must attract and retain highly qualified personnel. In particular, we compete with many other companies for software developers with high levels of experience in designing, developing and managing cloud-based software, as well as for skilled information technology, marketing, sales and operations professionals, and we may not be successful in attracting and retaining the professionals we need. Also, inbound sales, marketing and services domain experts are very important to our success and are difficult to replace. We have from time to time in the past experienced, and we expect to continue to experience in the future, difficulty in hiring and difficulty in retaining highly skilled employees with appropriate qualifications. In particular, we have experienced a competitive hiring environment in the Greater Boston area, where we are headquartered. Many of the companies with which we compete for experienced personnel have greater resources than we do. In addition, in making employment decisions, particularly in the software industry, job candidates often consider the value of the stock options or other equity incentives they are to receive in connection with their employment. If the price of our stock declines, or experiences significant volatility, our ability to attract or retain key employees will be adversely affected. If we fail to attract new personnel or fail to retain and motivate our current personnel, our growth prospects could be severely harmed.

If we fail to offer high-quality customer support, our business and reputation may suffer.

High-quality education, training and customer support are important for the successful marketing, sale and use of our inbound platform and for the renewal of existing customers. Providing this education, training and support requires that our personnel who manage our online training resource, HubSpot Academy, or provide customer support have specific inbound experience domain knowledge and expertise, making it more difficult for us to hire qualified personnel and to scale up our support operations. The importance of high-quality customer support will increase as we expand our business and pursue new customers. If we do not help our customers use multiple applications within our inbound platform and provide effective ongoing support, our ability to sell additional functionality and services to, or to retain, existing customers may suffer and our reputation with existing or potential customers may be harmed.

We may not be able to scale our business quickly enough to meet our customers' growing needs and if we are not able to grow efficiently, our operating results could be harmed.

As usage of our inbound platform grows and as customers use our platform for additional inbound applications, such as sales and services, we will need to devote additional resources to improving our application architecture, integrating with third-party systems and maintaining infrastructure performance. In addition, we will need to appropriately scale our internal business systems and our services organization, including customer support and professional services, to serve our growing customer base, particularly as our customer demographics change over time. Any failure of or delay in these efforts could cause impaired system performance and reduced customer satisfaction. These issues could reduce the attractiveness of our inbound platform to customers, resulting in decreased sales to new customers, lower renewal rates by existing customers, the issuance of service credits, or requested

refunds, which could impede our revenue growth and harm our reputation. Even if we are able to upgrade our systems and expand our staff, any such expansion will be expensive and complex, requiring management's time and attention. We could also face inefficiencies or operational failures as a result of our efforts to scale our infrastructure. Moreover, there are inherent risks associated with upgrading, improving and expanding our information technology systems. We cannot be sure that the expansion and improvements to our infrastructure and systems will be fully or effectively implemented on a timely basis, if at all. These efforts may reduce revenue and our margins and adversely affect our financial results.

Our ability to introduce new products and features is dependent on adequate research and development resources. If we do not adequately fund our research and development efforts, we may not be able to compete effectively and our business and operating results may be harmed.

To remain competitive, we must continue to develop new product offerings, applications, features and enhancements to our existing inbound platform. Maintaining adequate research and development personnel and resources to meet the demands of the

market is essential. If we are unable to develop our platform internally due to certain constraints, such as high employee turnover, lack of management ability or a lack of other research and development resources, we may miss market opportunities. Further, many of our competitors expend a considerably greater amount of funds on their research and development programs, and those that do not may be acquired by larger companies that would allocate greater resources to our competitors' research and development programs. Our failure to maintain adequate research and development resources or to compete effectively with the research and development programs of our competitors could materially adversely affect our business.

Changes in the sizes or types of businesses that purchase our platform or in the applications within our inbound platform purchased or used by our customers could negatively affect our operating results.

Our strategy is to sell subscriptions to our inbound platform to mid-sized businesses, but we have sold and will continue to sell to organizations ranging from small businesses to enterprises. Our gross margins can vary depending on numerous factors related to the implementation and use of our inbound platform, including the sophistication and intensity of our customers' use of our platform and the level of professional services and support required by a customer. Sales to enterprise customers may entail longer sales cycles and more significant selling efforts. Selling to small businesses may involve greater credit risk and uncertainty. If there are changes in the mix of businesses that purchase our platform or the mix of the product plans purchased by our customers, our gross margins could decrease and our operating results could be adversely affected.

We have in the past completed acquisitions and may acquire or invest in other companies or technologies in the future, which could divert management's attention, fail to meet our expectations, result in additional dilution to our stockholders, increase expenses, disrupt our operations or harm our operating results.

We have in the past acquired, and we may in the future acquire or invest in, businesses, products or technologies that we believe could complement or expand our platform, enhance our technical capabilities or otherwise offer growth opportunities. For example, in June 2011, we acquired Performable, a marketing automation provider. We may not be able to fully realize the anticipated benefits of these or any future acquisitions. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses related to identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

There are inherent risks in integrating and managing acquisitions. If we acquire additional businesses, we may not be able to assimilate or integrate the acquired personnel, operations and technologies successfully or effectively manage the combined business following the acquisition and our management may be distracted from operating our business. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including: unanticipated costs or liabilities associated with the acquisition; incurrence of acquisition-related costs, which would be recognized as a current period expense; inability to generate sufficient revenue to offset acquisition or investment costs; the inability to maintain relationships with customers and partners of the acquired business; the difficulty of incorporating acquired technology and rights into our platform and of maintaining quality and security standards consistent with our brand; delays in customer purchases due to uncertainty related to any acquisition; the need to integrate or implement additional controls, procedures and policies; challenges caused by distance, language and cultural differences; harm to our existing business relationships with business partners and customers as a result of the acquisition; the potential loss of key employees; use of resources that are needed in other parts of our business and diversion of management and employee resources; the inability to recognize acquired deferred revenue in accordance with our revenue recognition policies; and use of substantial portions of our available cash or the incurrence of debt to consummate the acquisition. Acquisitions also increase the risk of unforeseen legal liability, including for potential violations of applicable law or industry rules and regulations, arising from prior or ongoing acts or omissions by the acquired businesses which are not discovered by due diligence during the acquisition process. Generally, if an acquired business fails to meet our expectations, our operating results, business and financial condition may suffer. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our business, results of operations or financial condition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to goodwill and other intangible assets, which must be assessed for impairment at least annually. If our acquisitions do not ultimately yield expected returns, we may be required to make charges to our operating results based on our impairment assessment process, which could harm our results of operations.

Because our long-term growth strategy involves further expansion of our sales to customers outside the United States, our business will be susceptible to risks associated with international operations.

A component of our growth strategy involves the further expansion of our operations and customer base internationally. We opened our first international office in Dublin, Ireland in January 2013 and we opened additional international offices in Sydney, Australia in August 2014, in Singapore in October 2015 and in Tokyo in July 2016. We have announced our intention to open an international office in Berlin in the second half of 2017. These international offices focus primarily on sales, professional services and

support. We also have a development team in Dublin, Ireland. Our current international operations and future initiatives will involve a variety of risks, including:

- difficulties in maintaining our company culture with a dispersed and distant workforce;
- more stringent regulations relating to data security and the unauthorized use of, or access to, commercial and personal information, particularly in the European Union;
- unexpected changes in regulatory requirements, taxes or trade laws;
- differing labor regulations, especially in the European Union, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems and regulatory systems;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- limited or insufficient intellectual property protection;
- political instability or terrorist activities;
- likelihood of potential or actual violations of domestic and international anticorruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, or of U.S. and international export control and sanctions regulations, which likelihood may increase with an increase of sales or operations in foreign jurisdictions and operations in certain industries; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

Our limited experience in operating our business internationally increases the risk that any potential future expansion efforts that we may undertake will not be successful. If we invest substantial time and resources to expand our international operations and are unable to do so successfully and in a timely manner, our business and operating results will suffer. We continue to implement policies and procedures to facilitate our compliance with U.S. laws and regulations applicable to or arising from our international business. Inadequacies in our past or current compliance practices may increase the risk of inadvertent violations of such laws and regulations, which could lead to financial and other penalties that could damage our reputation and impose costs on us.

Interruptions or delays in service from our third-party data center providers could impair our ability to deliver our platform to our customers, resulting in customer dissatisfaction, damage to our reputation, loss of customers, limited growth and reduction in revenue.

We currently serve the majority of our platform functions from third-party data center hosting facilities operated by Amazon Web Services and located in northern Virginia. In addition, we serve ancillary functions for our customers from third-party data center hosting facilities operated by Rackspace located in Dallas, Texas, with a backup facility in Chicago, Illinois. Our operations depend, in part, on our third-party facility providers' abilities to protect these facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts and similar events. In the event that any of our third-party facilities arrangements is terminated, or if there is a lapse of service or damage to a facility, we could experience interruptions in our platform as well as delays and additional expenses in arranging new facilities and services.

Any damage to, or failure of, the systems of our third-party providers could result in interruptions to our platform. Despite precautions taken at our data centers, the occurrence of spikes in usage volume, a natural disaster, an act of terrorism, vandalism or sabotage, a decision to close a facility without adequate notice, or other unanticipated problems at a facility could result in lengthy interruptions in the availability of our on-demand software. Even with current and planned disaster recovery arrangements, our business could be harmed. Also, in the event of damage or

interruption, our insurance policies may not adequately compensate us for any losses that we may incur. These factors in turn could further reduce our revenue, subject us to liability and cause us to issue credits or cause customers to fail to renew their subscriptions, any of which could materially adversely affect our business.



We are dependent on the continued availability of third-party data hosting and transmission services.

A significant portion of our operating cost is from our third-party data hosting and transmission services. If the costs for such services increase due to vendor consolidation, regulation, contract renegotiation, or otherwise, we may not be able to increase the fees for our inbound platform or services to cover the changes. As a result, our operating results may be significantly worse than forecasted.

If we do not or cannot maintain the compatibility of our inbound platform with third-party applications that our customers use in their businesses, our revenue will decline.

A significant percentage of our customers choose to integrate our platform with certain capabilities provided by third-party application providers using application programming interfaces, or APIs, published by these providers. The functionality and popularity of our inbound platform depends, in part, on our ability to integrate our platform with third-party applications and platforms, including CRM, CMS, e-commerce, call center, analytics and social media sites that our customers use and from which they obtain data. Third-party providers of applications and APIs may change the features of their applications and platforms, restrict our access to their applications and platforms or alter the terms governing use of their applications and APIs and access to those applications and platforms in an adverse manner. Such changes could functionally limit or terminate our ability to use these third-party applications and platforms in conjunction with our platform, which could negatively impact our offerings and harm our business. If we fail to integrate our platform with new third-party applications and platforms that our customers use for marketing, sales or services purposes, we may not be able to offer the functionality that our customers need, which would negatively impact our ability to generate revenue and adversely impact our business.

We rely on data provided by third parties, the loss of which could limit the functionality of our platform and disrupt our business.

Select functionality of our inbound platform depends on our ability to deliver data, including search engine results and social media updates, provided by unaffiliated third parties, such as Facebook, Google, LinkedIn and Twitter. Some of this data is provided to us pursuant to third-party data sharing policies and terms of use, under data sharing agreements by third-party providers or by customer consent. In the future, any of these third parties could change its data sharing policies, including making them more restrictive, or alter its algorithms that determine the placement, display, and accessibility of search results and social media updates, any of which could result in the loss of, or significant impairment to, our ability to collect and provide useful data to our customers. These third parties could also interpret our, or our service providers', data collection policies or practices as being inconsistent with their policies, which could result in the loss of our ability to collect this data for our customers. Any such changes could impair our ability to deliver data to our customers and could adversely impact select functionality of our platform, impairing the return on investment that our customers derive from using our solution, as well as adversely affecting our business and our ability to generate revenue.

Privacy concerns and end users' acceptance of Internet behavior tracking may limit the applicability, use and adoption of our inbound platform.

Privacy concerns may cause end users to resist providing the personal data necessary to allow our customers to use our platform effectively. We have implemented various features intended to enable our customers to better protect end user privacy, but these measures may not alleviate all potential privacy concerns and threats. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our platform, especially in certain industries that rely on sensitive personal information. Privacy advocacy groups and the technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. The costs of compliance with, and other burdens imposed by these groups' policies and actions may limit the use and adoption of our inbound platform and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance or loss of any such action.

We are subject to governmental regulation and other legal obligations, particularly related to privacy, data protection and information security, and our actual or perceived failure to comply with such obligations could harm our business. Compliance with such laws could also impair our efforts to maintain and expand our customer base, and thereby decrease our revenue.

Our handling of data is subject to a variety of laws and regulations, including regulation by various government agencies, including the U.S. Federal Trade Commission, or FTC, and various state, local and foreign agencies. We collect personally identifiable information and other data from our customers and leads. We also handle personally identifiable information about our customers' customers. We use this information to provide services to our customers, to support, expand and improve our business. We may also share customers' personally identifiable information with third parties as authorized by the customer or as described in our privacy policy.

The U.S. federal and various state and foreign governments have adopted or proposed limitations on the collection, distribution, use and storage of personal information of individuals. In the United States, the FTC and many state attorneys general are applying federal and state consumer protection laws as imposing standards for the online collection, use and dissemination of data. However, these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other requirements or our practices. Any failure or perceived failure by us to comply with privacy or security laws, policies, legal obligations or industry standards or any security incident that results in the unauthorized release or transfer of personally identifiable information or other customer data may result in governmental enforcement actions, litigation, fines and penalties and/or adverse publicity, and could cause our customers to lose trust in us, which could have an adverse effect on our reputation and business.

Laws and regulations concerning privacy, data protection and information security are evolving, and changes to such laws and regulations could require us to change features of our platform or restrict our customers' ability to collect and use email addresses, page viewing data and personal information, which may reduce demand for our platform. Our failure to comply with federal, state and international data privacy laws and regulations could harm our ability to successfully operate our business and pursue our business goals.

In addition, several foreign countries and governmental bodies, including the European Union and Canada, have regulations dealing with the collection and use of personal information obtained from their residents, which are often more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of personal information that identifies or may be used to identify an individual. Within the European Union, legislators have adopted the General Data Protection Regulation (GDPR) effective May 2018 which may impose additional obligations and risk upon our business and which may increase substantially the penalties to which we could be subject in the event of any non-compliance. We may incur substantial expense in complying with the new obligations to be imposed by the GDPR and we may be required to make significant changes in our business operations, all of which may adversely affect our revenues and our business overall.

We have in the past relied upon adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European Union and Switzerland, which established a means for legitimating the transfer of personal data by data controllers in the European Economic Area (or "EEA") to the U.S. As a result of the October 6, 2015 European Union Court of Justice, or ECJ, opinion in Case C-362/14 (Schrems v. Data Protection Commissioner) regarding the adequacy of the U.S.-EU Safe Harbor Framework, the U.S. – EU Safe Harbor Framework is no longer deemed to be a valid method of compliance with requirements set forth in the Directive (and member states' implementations thereof) regarding the transfer of personal data outside of the EEA.

On May 23, 2016 the European Parliament adopted a resolution and on July 8, 2016 the European Member State representatives approved the final version of the EU-US Privacy Shield as a successor to the Safe Harbor framework. As of August 1, 2016, interested companies have been permitted to register for the program. We are currently certified to the EU-US Privacy Shield. There continue to be concerns about whether the EU-US Privacy Shield will face additional challenges. Until the remaining legal uncertainties regarding the future of the EU-US Privacy Shield are settled, we will continue to face uncertainty as to whether our efforts to comply with our obligations under European privacy laws will be sufficient. If we are investigated by a European data protection authority, we may face fines and other penalties. Any such investigation or charges by European data protection authorities could have a negative effect on our existing business and on our ability to attract and retain new customers.

We may also experience hesitancy, reluctance, or refusal by European or multi-national customers to continue to use our services due to the potential risk exposure to such customers as a result of the ECJ ruling in Case C-362/14 and the current data protection obligations imposed on them by certain data protection authorities. Such customers may also view any alternative approaches to compliance as being too costly, too burdensome, too legally uncertain or otherwise objectionable and therefore decide not to do business with us. For example, some of our customers or

potential customers in the EU may require their vendors to host all personal data within the EU and may decide to do business with one of our competitors who hosts personal data within the EU instead of doing business with us.

We and our customers are at risk of enforcement actions taken by certain EU data protection authorities until such point in time that we may be able to ensure that all transfers of personal data to us from the EEA are conducted in compliance with all applicable regulatory obligations, the guidance of data protection authorities, and evolving best practices. We may find it necessary to establish systems to maintain personal data originating from the EU in the EEA, which may involve substantial expense and may cause us to need to divert resources from other aspects of our business, all of which may adversely affect our business.

In addition, if our privacy or data security measures fail to comply with current or future laws and regulations, we may be subject to claims, legal proceedings or other actions by individuals or governmental authorities based on privacy or data protection regulations and our commitments to customers or others, as well as negative publicity and a potential loss of business. Moreover, if future laws and regulations limit our subscribers' ability to use and share personal information or our ability to store, process and share

personal information, demand for our solutions could decrease, our costs could increase, and our business, results of operations and financial condition could be harmed.

If our or our customers' security measures are compromised or unauthorized access to data of our customers or their customers is otherwise obtained, our inbound platform may be perceived as not being secure, our customers may be harmed and may curtail or cease their use of our platform, our reputation may be damaged and we may incur significant liabilities.

Our operations involve the storage and transmission of data of our customers and their customers, including personally identifiable information. Our storage is typically the sole source of record for portions of our customers' businesses and end user data, such as initial contact information and online interactions. Security incidents could result in unauthorized access to, loss of or unauthorized disclosure of this information, litigation, indemnity obligations and other possible liabilities, as well as negative publicity, which could damage our reputation, impair our sales and harm our customers and our business. Cyber-attacks and other malicious Internet-based activity continue to increase generally, and cloud-based platform providers of marketing services have been targeted. If our security measures are compromised as a result of third-party action, employee or customer error, malfeasance, stolen or fraudulently obtained log-in credentials or otherwise, our reputation could be damaged, our business may be harmed and we could incur significant liability. If third parties with whom we work, such as vendors or developers, violate applicable laws or our security policies, such violations may also put our customers' information at risk and could in turn have an adverse effect on our business. In addition, if the security measures of our customers are compromised, even without any actual compromise of our own systems, we may face negative publicity or reputational harm if our customers or anyone else incorrectly attributes the blame for such security breaches to us or our systems. We may be unable to anticipate or prevent techniques used to obtain unauthorized access or to sabotage systems because they change frequently and generally are not detected until after an incident has occurred. As we increase our customer base and our brand becomes more widely known and recognized, we may become more of a target for third parties seeking to compromise our security systems or gain unauthorized access to our customers' data. Additionally, we provide extensive access to our database, which stores our customer data, to our development team to facilitate our rapid pace of product development. If such access or our own operations cause the loss, damage or destruction of our customers' business data, their sales, lead generation, support and other business operations may be permanently harmed. As a result, our customers may bring claims against us for lost profits and other damages.

Many governments have enacted laws requiring companies to notify individuals of data security incidents or unauthorized transfers involving certain types of personal data. In addition, some of our customers contractually require notification of any data security compromise. Security compromises experienced by our competitors, by our customers or by us may lead to public disclosures, which may lead to widespread negative publicity. Any security compromise in our industry, whether actual or perceived, could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their subscriptions or subject us to third-party lawsuits, regulatory fines or other action or liability, which could materially and adversely affect our business and operating results.

There can be no assurance that any limitations of liability provisions in our contracts for a security breach would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing general liability insurance coverage and coverage for errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, financial condition and operating results.

If our inbound platform fails due to defects or similar problems, and if we fail to correct any defect or other software problems, we could lose customers, become subject to service performance or warranty claims or incur significant

costs.

Our platform and its underlying infrastructure are inherently complex and may contain material defects or errors. We release modifications, updates, bug fixes and other changes to our software several times per day, without traditional human-performed quality control reviews for each release. We have from time to time found defects in our software and may discover additional defects in the future. We may not be able to detect and correct defects or errors before customers begin to use our platform or its applications. Consequently, we or our customers may discover defects or errors after our platform has been implemented. These defects or errors could also cause inaccuracies in the data we collect and process for our customers, or even the loss, damage or inadvertent release of such confidential data. We implement bug fixes and upgrades as part of our regular system maintenance, which may lead to system downtime. Even if we are able to implement the bug fixes and upgrades in a timely manner, any history of defects or inaccuracies in the data we collect for our customers, or the loss, damage or inadvertent release of confidential data could cause our reputation to be harmed, and customers may elect not to purchase or renew their agreements with us and subject us to service performance credits, warranty claims or increased insurance costs. The costs associated with any material defects or errors in our platform or other performance problems may be substantial and could materially adversely affect our operating results.

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## Risks Related to Intellectual Property

Our business may suffer if it is alleged or determined that our technology infringes the intellectual property rights of others.

The software industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets and other intellectual and proprietary rights. Companies in the software industry, including those in marketing software, are often required to defend against litigation claims based on allegations of infringement or other violations of intellectual property rights. Many of our competitors and other industry participants have been issued patents and/or have filed patent applications and may assert patent or other intellectual property rights within the industry. Moreover, in recent years, individuals and groups that are non-practicing entities, commonly referred to as “patent trolls,” have purchased patents and other intellectual property assets for the purpose of making claims of infringement in order to extract settlements. From time to time, we may receive threatening letters or notices or may be the subject of claims that our services and/or platform and underlying technology infringe or violate the intellectual property rights of others. Responding to such claims, regardless of their merit, can be time consuming, costly to defend in litigation, divert management’s attention and resources, damage our reputation and brand and cause us to incur significant expenses. Our technologies may not be able to withstand any third-party claims or rights against their use. Claims of intellectual property infringement might require us to redesign our application, delay releases, enter into costly settlement or license agreements or pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling our platform. If we cannot or do not license the infringed technology on reasonable terms or at all, or substitute similar technology from another source, our revenue and operating results could be adversely impacted. Additionally, our customers may not purchase our inbound platform if they are concerned that they may infringe third-party intellectual property rights. The occurrence of any of these events may have a material adverse effect on our business.

In our subscription agreements with our customers, we generally do not agree to indemnify our customers against any losses or costs incurred in connection with claims by a third party alleging that a customer’s use of our services or platform infringes the intellectual property rights of the third party. There can be no assurance, however, that customers will not assert a common law indemnity claim or that any existing limitations of liability provisions in our contracts would be enforceable or adequate, or would otherwise protect us from any such liabilities or damages with respect to any particular claim. Our customers who are accused of intellectual property infringement may in the future seek indemnification from us under common law or other legal theories. If such claims are successful, or if we are required to indemnify or defend our customers from these or other claims, these matters could be disruptive to our business and management and have a material adverse effect on our business, operating results and financial condition.

If we fail to adequately protect our proprietary rights, in the United States and abroad, our competitive position could be impaired and we may lose valuable assets, experience reduced revenue and incur costly litigation to protect our rights.

Our success is dependent, in part, upon protecting our proprietary technology. We rely on a combination of copyrights, trademarks, service marks, trade secret laws and contractual restrictions to establish and protect our proprietary rights in our products and services. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Any of our trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our technology and use information that we regard as proprietary to create products and services that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our offerings may be unenforceable under the laws of certain jurisdictions and foreign countries. In addition, the laws of some countries do not protect proprietary rights to

the same extent as the laws of the United States. To the extent we expand our international activities, our exposure to unauthorized copying and use of our technology and proprietary information may increase.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances. No assurance can be given that these agreements will be effective in controlling access to and distribution of our products and proprietary information. Further, these agreements may not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our platform and offerings.

We may be required to spend significant resources to monitor and protect our intellectual property rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Such litigation could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation, could delay further sales or the implementation of our platform and



offerings, impair the functionality of our platform and offerings, delay introductions of new features or enhancements, result in our substituting inferior or more costly technologies into our platform and offerings, or injure our reputation.

Our use of “open source” software could negatively affect our ability to offer our platform and subject us to possible litigation.

A substantial portion of our cloud-based platform incorporates so-called “open source” software, and we may incorporate additional open source software in the future. Open source software is generally freely accessible, usable and modifiable. Certain open source licenses may, in certain circumstances, require us to offer the components of our platform that incorporate the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of the particular open source license. If an author or other third party that distributes open source software we use were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, including being enjoined from the offering of the components of our platform that contained the open source software and being required to comply with the foregoing conditions, which could disrupt our ability to offer the affected software. We could also be subject to suits by parties claiming ownership of what we believe to be open source software. Litigation could be costly for us to defend, have a negative effect on our operating results and financial condition and require us to devote additional research and development resources to change our products.

#### Risks Related to Government Regulation and Taxation

We could face liability, or our reputation might be harmed, as a result of the activities of our customers, the content of their websites or the data they store on our servers.

As a provider of a cloud-based inbound marketing and sales software platform, we may be subject to potential liability for the activities of our customers on or in connection with the data they store on our servers. Although our customer terms of use prohibit illegal use of our services by our customers and permit us to take down websites or take other appropriate actions for illegal use, customers may nonetheless engage in prohibited activities or upload or store content with us in violation of applicable law or the customer’s own policies, which could subject us to liability or harm our reputation.

Several U.S. federal statutes may apply to us with respect to various customer activities:

• The Digital Millennium Copyright Act of 1998, or DMCA, provides recourse for owners of copyrighted material who believe that their rights under U.S. copyright law have been infringed on the Internet. Under the DMCA, based on our current business activity as an Internet service provider that does not own or control website content posted by our customers, we generally are not liable for infringing content posted by our customers or other third parties, provided that we follow the procedures for handling copyright infringement claims set forth in the DMCA. Generally, if we receive a proper notice from, or on behalf, of a copyright owner alleging infringement of copyrighted material located on websites we host, and we fail to expeditiously remove or disable access to the allegedly infringing material or otherwise fail to meet the requirements of the safe harbor provided by the DMCA, the copyright owner may seek to impose liability on us. Technical mistakes in complying with the detailed DMCA take-down procedures could subject us to liability for copyright infringement.

• The Communications Decency Act of 1996, or CDA, generally protects online service providers, such as us, from liability for certain activities of their customers, such as the posting of defamatory or obscene content, unless the online service provider is participating in the unlawful conduct. Under the CDA, we are generally not responsible for the customer-created content hosted on our servers. Consequently, we do not monitor hosted websites or prescreen the content placed by our customers on their sites. However, the CDA does not apply in foreign jurisdictions and we may nonetheless be brought into disputes between our customers and third parties which would require us to devote

management time and resources to resolve such matters and any publicity from such matters could also have an adverse effect on our reputation and therefore our business.

In addition to the CDA, the Securing the Protection of our Enduring and Established Constitutional Heritage Act, or the SPEECH Act, provides a statutory exception to the enforcement by a U.S. court of a foreign judgment for defamation under certain circumstances. Generally, the exception applies if the defamation law applied in the foreign court did not provide at least as much protection for freedom of speech and press as would be provided by the First Amendment of the U.S. Constitution or by the constitution and law of the state in which the U.S. court is located, or if no finding of defamation would be supported under the First Amendment of the U.S. Constitution or under the constitution and law of the state in which the U.S. court is located. Although the SPEECH Act may protect us from the enforcement of foreign judgments in the United States, it does not affect the enforceability of the judgment in the foreign country that issued the judgment. Given our international presence, we may therefore, nonetheless, have to defend against or comply with any foreign judgments made against us, which could take up substantial management time and resources and damage our reputation.

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Although these statutes and case law in the United States have generally shielded us from liability for customer activities to date, court rulings in pending or future litigation may narrow the scope of protection afforded us under these laws. In addition, laws governing these activities are unsettled in many international jurisdictions, or may prove difficult or impossible for us to comply with in some international jurisdictions. Also, notwithstanding the exculpatory language of these bodies of law, we may become involved in complaints and lawsuits which, even if ultimately resolved in our favor, add cost to our doing business and may divert management's time and attention. Finally, other existing bodies of law, including the criminal laws of various states, may be deemed to apply or new statutes or regulations may be adopted in the future, any of which could expose us to further liability and increase our costs of doing business.

We may be subject to additional obligations to collect and remit sales tax and other taxes, and we may be subject to tax liability for past sales, which could harm our business.

State, local and foreign jurisdictions have differing rules and regulations governing sales, use, value added and other taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of such taxes to our inbound platform in various jurisdictions is unclear. Further, these jurisdictions' rules regarding tax nexus are complex and vary significantly. As a result, we could face the possibility of tax assessments and audits, and our liability for these taxes and associated penalties could exceed our original estimates. A successful assertion that we should be collecting additional sales, use, value added or other taxes in those jurisdictions where we have not historically done so and do not accrue for such taxes could result in substantial tax liabilities and related penalties for past sales, discourage customers from purchasing our application or otherwise harm our business and operating results.

Changes in tax laws or regulations that are applied adversely to us or our customers could increase the costs of our inbound platform and adversely impact our business.

New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time. Any new taxes could adversely affect our domestic and international business operations, and our business and financial performance. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified or applied adversely to us. These events could require us or our customers to pay additional tax amounts on a prospective or retroactive basis, as well as require us or our customers to pay fines and/or penalties and interest for past amounts deemed to be due. If we raise our prices to offset the costs of these changes, existing and potential future customers may elect not to continue or purchase our inbound platform in the future. Additionally, new, changed, modified or newly interpreted or applied tax laws could increase our customers' and our compliance, operating and other costs, as well as the costs of our platform. Any or all of these events could adversely impact our business and financial performance.

We are a multinational organization faced with increasingly complex tax issues in many jurisdictions, and we could be obligated to pay additional taxes in various jurisdictions.

As a multinational organization, we may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents, which could have a material adverse effect on our liquidity and operating results. Changes in tax laws, such as tax reform in the United States or changes in tax laws resulting from the Organization for Economic Co-operation and Development's ("OECD") multi-jurisdictional plan of action to address "base erosion and profit shifting," could impact our effective tax rate. In addition, the authorities in these jurisdictions could review our tax returns and impose additional tax, interest and penalties, and the authorities could claim that various withholding requirements apply to us or our subsidiaries or assert that benefits of tax treaties are not available to us or our subsidiaries, any of which could have a material impact on us and the results of our operations.

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

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, environmental laws, consumer protection laws, anti-bribery laws, import/export controls, federal securities laws and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than those in the United States. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties or injunctions.

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We may not be able to utilize a significant portion of our net operating loss carryforwards, which could adversely affect our profitability.

As of December 31, 2016, we had federal and state net operating loss carryforwards due to prior period losses, which, if not utilized, will begin to expire in 2027 for federal purposes and began to expire in 2014 for state purposes. These net operating loss carryforwards could expire unused and be unavailable to offset future income tax liabilities, which could adversely affect our profitability. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, our ability to utilize net operating loss carryforwards or other tax attributes, such as research tax credits, in any taxable year may be further limited if we experience an ownership change. A Section 382 ownership change generally occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. Future issuances of our stock could cause an ownership change. It is possible that an ownership change in connection with a future offering, or any future ownership change, could have a material effect on the use of our net operating loss carryforwards or other tax attributes, which could adversely affect our profitability.

The standards that private entities use to regulate the use of email have in the past interfered with, and may in the future interfere with, the effectiveness of our inbound platform and our ability to conduct business.

Our customers rely on email to communicate with their existing or prospective customers. Various private entities attempt to regulate the use of email for commercial solicitation. These entities often advocate standards of conduct or practice that significantly exceed current legal requirements and classify certain email solicitations that comply with current legal requirements as spam. Some of these entities maintain “blacklists” of companies and individuals, and the websites, internet service providers and internet protocol addresses associated with those entities or individuals that do not adhere to those standards of conduct or practices for commercial email solicitations that the blacklisting entity believes are appropriate. If a company’s internet protocol addresses are listed by a blacklisting entity, emails sent from those addresses may be blocked if they are sent to any internet domain or internet address that subscribes to the blacklisting entity’s service or purchases its blacklist.

From time to time, some of our internet protocol addresses may become listed with one or more blacklisting entities due to the messaging practices of our customers. There can be no guarantee that we will be able to successfully remove ourselves from those lists. Blacklisting of this type could interfere with our ability to market our inbound platform and services and communicate with our customers and, because we fulfill email delivery on behalf of our customers, could undermine the effectiveness of our customers’ email marketing campaigns, all of which could have a material negative impact on our business and results of operations.

Existing federal, state and foreign laws regulate Internet tracking software, the senders of commercial emails and text messages, website owners and other activities, and could impact the use of our inbound platform and potentially subject us to regulatory enforcement or private litigation.

Certain aspects of how our customers utilize our platform are subject to regulations in the United States, European Union and elsewhere. In recent years, U.S. and European lawmakers and regulators have expressed concern over the use of third-party cookies or web beacons for online behavioral advertising, and legislation adopted recently in the European Union requires informed consent for the placement of a cookie on a user’s device. Regulation of cookies and web beacons may lead to restrictions on our activities, such as efforts to understand users’ Internet usage. New and expanding “Do Not Track” regulations have recently been enacted or proposed that protect users’ right to choose whether or not to be tracked online. These regulations seek, among other things, to allow end users to have greater control over the use of private information collected online, to forbid the collection or use of online information, to demand a business to comply with their choice to opt out of such collection or use, and to place limits upon the disclosure of information to third party websites. These policies could have a significant impact on the operation of our inbound platform and could impair our attractiveness to customers, which would harm our business.

Many of our customers and potential customers in the healthcare, financial services and other industries are subject to substantial regulation regarding their collection, use and protection of data and may be the subject of further regulation in the future. Accordingly, these laws or significant new laws or regulations or changes in, or repeals of, existing laws, regulations or governmental policy may change the way these customers do business and may require us to implement additional features or offer additional contractual terms to satisfy customer and regulatory requirements, or could cause the demand for and sales of our inbound platform to decrease and adversely impact our financial results.

In addition, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or the CAN-SPAM Act, establishes certain requirements for commercial email messages and specifies penalties for the transmission of commercial email messages that are intended to deceive the recipient as to source or content. The CAN-SPAM Act, among other things, obligates the sender of commercial emails to provide recipients with the ability to opt out of receiving future commercial emails from the sender. The ability of our customers' message recipients to opt out of receiving commercial emails may minimize the effectiveness of

the email components of our inbound platform. In addition, certain states and foreign jurisdictions, such as Australia, Canada and the European Union, have enacted laws that regulate sending email, and some of these laws are more restrictive than U.S. laws. For example, some foreign laws prohibit sending unsolicited email unless the recipient has provided the sender advance consent to receipt of such email, or in other words has “opted-in” to receiving it. A requirement that recipients opt into, or the ability of recipients to opt out of, receiving commercial emails may minimize the effectiveness of our platform.

While these laws and regulations generally govern our customers’ use of our platform, we may be subject to certain laws as a data processor on behalf of, or as a business associate of, our customers. For example, laws and regulations governing the collection, use and disclosure of personal information include, in the United States, rules and regulations promulgated under the authority of the Federal Trade Commission, the Health Insurance Portability and Accountability Act of 1996, the Gramm-Leach-Bliley Act of 1999 and state breach notification laws, and internationally, the Data Protection Directive in the European Union and the Federal Data Protection Act in Germany. If we were found to be in violation of any of these laws or regulations as a result of government enforcement or private litigation, we could be subjected to civil and criminal sanctions, including both monetary fines and injunctive action that could force us to change our business practices, all of which could adversely affect our financial performance and significantly harm our reputation and our business.

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

Our business activities are subject to various restrictions under U.S. export controls and trade and economic sanctions laws, including the U.S. Commerce Department’s Export Administration Regulations and economic and trade sanctions regulations maintained by the U.S. Treasury Department’s Office of Foreign Assets Control. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to civil or criminal penalties and reputational harm. Obtaining the necessary authorizations, including any required license, for a particular transaction may be time-consuming, is not guaranteed, and may result in the delay or loss of sales opportunities. Furthermore, U.S. export control laws and economic sanctions laws prohibit certain transactions with U.S. embargoed or sanctioned countries, governments, persons and entities. Although we take precautions to prevent transactions with U.S. sanction targets, the possibility exists that we could inadvertently provide our solutions to persons prohibited by U.S. sanctions. This could result in negative consequences to us, including government investigations, penalties and reputational harm.

#### Risks Related to Our Operating Results and Financial Condition

We may experience quarterly fluctuations in our operating results due to a number of factors, which makes our future results difficult to predict and could cause our operating results to fall below expectations or our guidance.

Our quarterly operating results have fluctuated in the past and are expected to fluctuate in the future due to a variety of factors, many of which are outside of our control. As a result, our past results may not be indicative of our future performance, and comparing our operating results on a period-to-period basis may not be meaningful. In addition to the other risks described in this Annual Report on Form 10-K, factors that may affect our quarterly operating results include the following:

- changes in spending on marketing and sales software by our current or prospective customers;
- pricing our inbound platform subscriptions effectively so that we are able to attract and retain customers without compromising our profitability;
- attracting new customers for both our marketing and sales software, increasing our existing customers’ use of our platform and providing our customers with excellent customer support;
- customer renewal rates and the amounts for which agreements are renewed;
- global awareness of our thought leadership and brand;

- changes in the competitive dynamics of our market, including consolidation among competitors or customers and the introduction of new products or product enhancements;
- changes to the commission plans, quotas and other compensation-related metrics for our sales representatives;
- the amount and timing of payment for operating expenses, particularly research and development, sales and marketing expenses and employee benefit expenses;
- the amount and timing of costs associated with recruiting, training and integrating new employees while maintaining our company culture;
- our ability to manage our existing business and future growth, including increases in the number of customers on our platform and the introduction and adoption of our inbound platform in new markets outside of the United States;

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- unforeseen costs and expenses related to the expansion of our business, operations and infrastructure, including disruptions in our hosting network infrastructure and privacy and data security;
- foreign currency exchange rate fluctuations; and
- general economic and political conditions in our domestic and international markets.

We may not be able to accurately forecast the amount and mix of future subscriptions, revenue and expenses and, as a result, our operating results may fall below our estimates or the expectations of public market analysts and investors. If our revenue or operating results fall below the expectations of investors or securities analysts, or below any guidance we may provide, the price of our common stock could decline.

If we do not accurately predict subscription renewal rates or otherwise fail to forecast our revenue accurately, or if we fail to match our expenditures with corresponding revenue, our operating results could be adversely affected.

Because our recent growth has resulted in the rapid expansion of our business, we do not have a long history upon which to base forecasts of renewal rates with customers or future operating revenue. As a result, our operating results in future reporting periods may be significantly below the expectations of the public market, equity research analysts or investors, which could harm the price of our common stock.

Because we generally recognize revenue from subscriptions ratably over the term of the agreement, near term changes in sales may not be reflected immediately in our operating results.

We offer our inbound platform primarily through a mix of monthly, quarterly and single-year subscription agreements and generally recognize revenue ratably over the related subscription period. As a result, much of the revenue we report in each quarter is derived from agreements entered into during prior months, quarters or years. In addition, we do not record deferred revenue beyond amounts invoiced as a liability on our balance sheet. A decline in new or renewed subscriptions or marketing solutions agreements in any one quarter is not likely to be reflected immediately in our revenue results for that quarter. Such declines, however, would negatively affect our revenue and deferred revenue balances in future periods, and the effect of significant downturns in sales and market acceptance of our platform, and potential changes in our rate of renewals, may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our total revenue and deferred revenue balance through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

We are exposed to fluctuations in currency exchange rates.

We face exposure to movements in currency exchange rates, which may cause our revenue and operating results to differ materially from expectations. As we have expanded our international operations our exposure exchange rate fluctuations has increased, in particular with respect to the Euro, British Pound Sterling, Australian Dollar, and Japanese Yen. As exchange rates vary, revenue, cost of revenue, operating expenses and other operating results, when re-measured, may differ materially from expectations. In addition, our operating results are subject to fluctuation if our mix of U.S. and foreign currency denominated transactions and expenses changes in the future. Although we may apply certain strategies to mitigate foreign currency risk, these strategies might not eliminate our exposure to foreign exchange rate fluctuations and would involve costs and risks of their own, such as ongoing management time and expertise, external costs to implement the strategies and potential accounting implications. Additionally, as we anticipate growing our business further outside of the United States, the effects of movements in currency exchange rates will increase as our transaction volume outside of the United States increases.

#### Risks Related to Our Common Stock

Our stock price may be volatile and you may be unable to sell your shares at or above the price you purchased them.

The trading prices of the securities of technology companies, including providers of software via the cloud-based model, have been highly volatile. Since shares of our common stock were sold in our initial public offering in October 2014 at a price of \$25.00 per share, our stock price has ranged from \$25.79 to \$59.55, through December 31, 2016. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our revenue and other operating results, including as a result of the addition or loss of any number of customers;

- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;

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- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of us, changes in ratings and financial estimates and the publication of other news by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- changes in operating performance and stock market valuations of cloud-based software or other technology companies, or those in our industry in particular;
- price and volume fluctuations in the trading of our common stock and in the overall stock market, including as a result of trends in the economy as a whole;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business or industry, including data privacy and data security;
- lawsuits threatened or filed against us;
- changes in key personnel; and
- other events or factors, including changes in general economic, industry and market conditions and trends.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies.

In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business.

We have incurred, and expect to continue to incur, increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our business, operating results and financial condition.

As a public company we have incurred, and expect to continue to incur significant legal, accounting and other expenses. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, and the rules and regulations of the New York Stock Exchange, or NYSE. These requirements have increased and will continue to increase our legal, accounting and financial compliance costs and have made and will continue to make some activities more time consuming and costly. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to maintain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers.

The Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and the effectiveness of our disclosure controls and procedures quarterly. In particular, Section 404 of the Sarbanes-Oxley Act, or Section 404, requires us to perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on, and our independent registered public accounting firm to attest to, the effectiveness of our internal control over financial reporting. Our compliance with applicable provisions of Section 404 requires that we incur substantial accounting expense and expend significant management time on compliance-related issues as we implement additional corporate governance practices and comply with reporting requirements. Moreover, if we are not able to comply with the requirements of Section 404 applicable to us in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources. We have in the past identified control deficiencies, including a material weakness during the quarters ended June 30, 2015 and September 30, 2015. While we remediated this material weakness in 2015 and continue to seek improvements to enhance our

control environment, we may identify additional material weaknesses or other deficiencies in the future.

Furthermore, investor perceptions of our company may suffer if deficiencies are found, and this could cause a decline in the market price of our stock. Irrespective of compliance with Section 404, any failure of our internal control over financial reporting could have a material adverse effect on our stated operating results and harm our reputation. If we are unable to implement these

requirements effectively or efficiently, it could harm our operations, financial reporting, or financial results and could result in an adverse opinion on our internal controls from our independent registered public accounting firm.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds to invest in future growth opportunities. Additional financing may not be available on favorable terms, if at all. If adequate funds are not available on acceptable terms, we may be unable to invest in future growth opportunities, which could seriously harm our business and operating results. If we incur debt, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. Furthermore, if we issue equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. As a result, our stockholders bear the risk of our future securities offerings reducing the market price of our common stock and diluting their interest.

Anti-takeover provisions in our charter documents and Delaware law may delay or prevent an acquisition of our company.

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions that may have the effect of delaying or preventing a change in control of us or changes in our management. Our amended and restated certificate of incorporation and bylaws include provisions that:

- authorize “blank check” preferred stock, which could be issued by the board without stockholder approval and may contain voting, liquidation, dividend and other rights superior to our common stock;
- provide for a classified board of directors whose members serve staggered three-year terms;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairperson of the board, the chief executive officer or the president;
- prohibit stockholder action by written consent;
- establish an advance notice procedure for stockholder approvals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board of directors;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- specify that no stockholder is permitted to cumulate votes at any election of directors;
- authorize our board of directors to modify, alter or repeal our amended and restated bylaws; and
- require supermajority votes of the holders of our common stock to amend specified provisions of our charter documents.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us in certain circumstances.

Any provision of our amended and restated certificate of incorporation or amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. Properties

We occupy approximately 240,000 square feet of office space in Cambridge, Massachusetts pursuant to lease agreements that expire through 2027. We also maintain offices in Portsmouth, New Hampshire, Dublin, Ireland, Sydney, Australia, Singapore, and Japan. We believe that our current facilities are suitable and adequate to meet our current needs. We intend to add new facilities or expand existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

ITEM 3. Legal Proceedings

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

ITEM 4. Mine Safety Disclosures Mine Safety Disclosures

Not Applicable.

## PART II

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

## Market Information for Common Stock

Our common stock has been listed on the New York Stock Exchange under the symbol "HUBS" since October 9, 2014. Prior to that date, there was no public trading market for our common stock. Our initial public offering was priced at \$25.00 per share on October 8, 2014. The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on the New York Stock Exchange:

	2016	
	High	Low
First quarter	\$54.89	\$27.52
Second quarter	\$52.24	\$39.57
Third quarter	\$59.48	\$42.51
Fourth quarter	\$58.40	\$45.90

	2015	
	High	Low
First quarter	\$43.47	\$32.52
Second quarter	\$53.32	\$38.00
Third quarter	\$54.12	\$42.74
Fourth quarter	\$59.55	\$45.74

As of February 3, 2017 we had 68 holders of record of our common stock. The actual number of shareholders is greater than this number of record holders, and includes shareholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include shareholders whose shares may be held in trust by other entities.

## Dividends

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain future earnings to fund development and growth of our business, and do not anticipate paying cash dividends in the foreseeable future.

## Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of the company under the Securities Act of 1933, as amended (the "Securities Act") or the Exchange Act.





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The following graph shows a comparison from October 9, 2014 (the date our common stock commenced trading on the NYSE) through December 31, 2016 of the cumulative total return for our common stock, the NASDAQ Computer Index and the S&P 500 Index. Such returns are based on historical results and are not intended to suggest future performance.

	10/9/2014	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015	3/31/2016	6/30/2016	9/30/2016	12/30/2016
HubSpot	100	112	133	165	154	187	145	144	191	156
S&P 500 Index	100	107	107	107	100	106	107	109	112	116
Nasdaq Computer Index	100	107	108	108	103	113	114	110	126	127

### Recent Sales of Unregistered Securities

None.

### Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

### Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters,” for information regarding securities authorized for issuance.

## ITEM 6. Selected Consolidated Financial Data

You should read the selected consolidated financial data below in conjunction with “Management’s discussion and analysis of financial condition and results of operations” and the consolidated financial statements, related notes and other financial information included elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

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The following selected consolidated statements of operations data for the years ended December 31, 2016, 2015, and 2014, and the consolidated balance sheet data as of December 31, 2016 and 2015, have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for the years ended December 31, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2014, 2013 and 2012 have been derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands, except per share data)				
<b>Consolidated Statements of Operations Data:</b>					
<b>Revenue:</b>					
Subscription	\$254,775	\$167,920	\$106,319	\$70,819	\$45,870
Professional services and other	16,192	14,023	9,557	6,815	5,734
<b>Total revenue</b>	<b>270,967</b>	<b>181,943</b>	<b>115,876</b>	<b>77,634</b>	<b>51,604</b>
<b>Cost of revenue:</b>					
Subscription (1)	41,182	32,271	23,655	18,745	9,689
Professional services and other (1)	20,683	15,652	11,425	8,759	6,004
<b>Total cost of revenue</b>	<b>61,865</b>	<b>47,923</b>	<b>35,080</b>	<b>27,504</b>	<b>15,693</b>
<b>Total gross profit</b>	<b>209,102</b>	<b>134,020</b>	<b>80,796</b>	<b>50,130</b>	<b>35,911</b>
<b>Operating expenses:</b>					
Research and development (1)	45,997	32,457	25,638	15,018	10,585
Sales and marketing (1)	162,647	112,629	78,809	53,158	34,949
General and administrative (1)	45,120	35,408	24,958	16,204	9,117
<b>Total operating expenses</b>	<b>253,764</b>	<b>180,494</b>	<b>129,405</b>	<b>84,380</b>	<b>54,651</b>
<b>Loss from operations</b>	<b>(44,662 )</b>	<b>(46,474 )</b>	<b>(48,609 )</b>	<b>(34,250 )</b>	<b>(18,740 )</b>
<b>Other (expense) income</b>					
Interest income	854	390	46	34	26
Interest expense	(265 )	(185 )	(322 )	(20 )	(63 )
Other expense	(956 )	628	564	(38 )	(1 )
<b>Total other (expense) income</b>	<b>(367 )</b>	<b>833</b>	<b>288</b>	<b>(24 )</b>	<b>(38 )</b>
<b>Net loss before income tax (provision) benefit</b>	<b>(45,029 )</b>	<b>(45,641 )</b>	<b>(48,321 )</b>	<b>(34,274 )</b>	<b>(18,778 )</b>
<b>Income tax (provision) benefit</b>	<b>(533 )</b>	<b>(412 )</b>	<b>92</b>	<b>—</b>	<b>—</b>
<b>Net loss</b>	<b>(45,562 )</b>	<b>(46,053 )</b>	<b>(48,229 )</b>	<b>(34,274 )</b>	<b>(18,778 )</b>
Preferred stock accretion	—	—	331	54	81
<b>Net loss attributable to common stockholders</b>	<b>\$(45,562 )</b>	<b>\$(46,053 )</b>	<b>\$(48,560 )</b>	<b>\$(34,328 )</b>	<b>\$(18,859 )</b>
<b>Net loss per common share, basic and diluted (2)</b>	<b>\$(1.29 )</b>	<b>\$(1.39 )</b>	<b>\$(4.20 )</b>	<b>\$(6.71 )</b>	<b>\$(4.01 )</b>
<b>Weighted average common shares used in computing</b>					
basic and diluted net loss per common share (2)	35,197	33,222	11,562	5,113	4,699

(1) Stock-based compensation included in the consolidated statements of operations data above was as follows:

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
<b>Cost of revenue:</b>					

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Subscription	\$512	\$341	\$128	\$50	\$27
Professional services and other	1,640	1,216	498	211	100
Research and development	8,828	6,327	6,190	691	739
Sales and marketing	13,352	7,658	5,596	1,194	691
General and administrative	8,343	5,766	3,946	1,318	958
Total stock-based compensation	\$32,675	\$21,308	\$16,358	\$3,464	\$2,515

(2) See Note 2 to our consolidated financial statements for further details on the calculation of basic and diluted net loss per share attributable to common stockholders.

	As of December 31,				
	2016	2015	2014	2013	2012
	(in thousands)				
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$59,702	\$55,580	\$123,721	\$12,643	\$41,097
Working capital, excluding deferred revenue	144,296	118,854	130,886	13,803	39,934
Total assets	259,755	220,379	174,858	50,559	65,651
Deferred revenue	96,597	65,139	41,305	24,906	16,017
Total liabilities	141,055	98,671	64,159	42,514	27,621
Total redeemable convertible preferred stock	—	—	—	101,293	101,239
Total stockholders' equity (deficit)	\$118,700	\$121,708	\$110,699	\$(93,248)	\$(63,209)

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes that appear elsewhere in this Annual Report on Form 10-K. As discussed in the section titled "Special Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include , but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included under Part I, Item 1A within this Annual Report on Form 10-K.

### Company Overview

We provide a cloud-based marketing and sales software platform that enables businesses to deliver an inbound experience. An inbound marketing and sales experience attracts, engages and delights customers by being more relevant, more helpful, more personalized and less interruptive than traditional marketing and sales tactics. Our software platform features integrated applications to help businesses attract visitors to their websites, convert visitors into leads, close leads into customers and delight customers so that they become promoters of those businesses. These integrated applications include social media, search engine optimization, blogging, website content management, marketing automation, email, sales productivity, CRM, analytics and reporting.

We designed our all-in-one platform from the ground up to enable businesses to provide an inbound experience to their prospects and customers. At the core of our platform is a single inbound database for each business that captures its customer activity throughout the customer lifestyle. Our platform uses our centralized inbound database to empower businesses to create more personalized interactions with customers, such as personalized emails, personalized social media alerts, personalized websites and targeted alerts for sales people. We provide a comprehensive set of integrated applications on our platform, which offers businesses ease of use, power and simplicity. We designed and built our platform to serve a large numbers of customers of any size with demanding use cases.

While our platform can scale to the enterprise, we focus on selling to mid-market businesses because we believe we have significant competitive advantages attracting and serving them. We efficiently reach these businesses at scale through our proven inbound go-to-market approach and more than 3,500 agency partners worldwide. Our platform is particularly suited to serving the needs of mid-market business-to-business companies. These mid-market businesses seek an integrated, easy to implement and easy to use solution to reach customers and compete with organizations that have larger marketing and sales budgets. As of December 31, 2016, we had 23,226 marketing customers of varying sizes in more than 90 countries, representing almost every industry.

Our platform is a multi-tenant, single code-based and globally available software-as-a-service product delivered through web browsers or mobile applications. We sell our platform on a subscription basis and generated revenue of \$271.0 million in 2016, \$181.9 million in 2015, and \$115.9 million in 2014, representing year-over-year increases of 49% in 2016 and 57% in 2015. We had net losses of \$45.6 million in 2016, \$46.1 million in 2015, and \$48.2 million in 2014, primarily due to increased investments in our growth.

We derive most of our revenue from subscriptions to our cloud-based software platform and related professional services, which consist of customer on-boarding and training services. Subscription revenue accounted for 94% of our total revenue for the year ended December 31, 2016 and 92% of our total revenue for the years ended December 31, 2015 and 2014. We sell various product plans at different base prices on a subscription basis, each of which includes our core platform and integrated applications to meet the needs of the various customers we serve. Customers pay additional fees if the number of contacts stored and tracked in the customer's database exceeds specified thresholds. We generate additional revenue based on the purchase of additional subscriptions, purchases of our add-on products and the number of account users, subdomains and website visits. Substantially all of our customers' subscriptions are

one year or less in duration.

Subscriptions are non-cancelable and are billed in advance on various schedules. Because the mix of billing terms for orders can vary from period to period, the annualized value of the orders we enter into with our customers will not be completely reflected in deferred revenue at any single point in time. Accordingly, we do not believe that change in deferred revenue is an accurate indicator of future revenue for a given period of time.

Professional services and other revenue accounted for 6% of total revenue for the year ended December 31, 2016 and 8% of our total revenue for the years ended December 31, 2015 and 2014. Most of our customers purchase on-boarding and training services which are designed to help customers enhance their ability to attract, engage and delight their customers using our platform.

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Our marketing customer base has grown from 18,116 marketing customers at the end of 2015 to 23,226 marketing customers as of December 31, 2016, which has resulted in rapid revenue growth. As of December 31, 2016, approximately 31% of our marketing customers were located outside of the United States and these customers generated approximately 28% of our total revenue for the year ended December 31, 2016. We opened our first international office in Dublin, Ireland in January 2013, a second international office in Sydney, Australia in August 2014, a third international office in Singapore in October 2015, a fourth international office in Tokyo Japan in July 2016, and have announced a fifth international office in Berlin, Germany that will be opened in 2017. We plan to further grow our international business and expand to other geographies.

We have focused on rapidly growing our business and plan to continue to make investments to help us address some of the challenges facing us to support this growth, such as demand for our platform by existing and new customers, significant competition from other providers of marketing software and related applications and rapid technological change in our industry. We believe that the growth of our business is dependent on many factors, including our ability to expand our customer base, increase adoption of our platform within existing customers, develop new products and applications to extend the functionality of our platform and provide a high level of customer service. We expect to increase our investment in sales and marketing as we continue to expand our sales teams, increase our marketing activities and grow our international operations. We also expect to increase our investment in research and development as we continue to introduce new products and applications to extend the functionality of our platform. We also intend to invest in maintaining a high level of customer service and support which we consider critical for our continued success. We plan to continue investing in our data center infrastructure and services capabilities in order to support continued future customer growth. We also expect to continue to incur additional general and administrative expenses as a result of both our growth and the infrastructure required to be a public company. We expect to use our cash flow from operations and the proceeds from our prior stock offerings to fund these growth strategies and do not expect to be profitable in the near term.

We believe that these investments will result in an increase in our subscription revenue base. This will result in revenue increasing faster than the increase in sales and marketing, research and development and general and administrative expenses, exclusive of stock-based compensation, as we reach economies of scale. With this increased operating leverage, we expect our operating margins to increase in the long term. However, we will incur losses in the short term. If we are unable to achieve our revenue growth objectives, including a high rate of renewals of our customer agreements, we may not be able to achieve profitability.

#### Key Business Metrics

We use the following key business metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. Our key business metrics may be calculated in a manner different than similar key business metrics used by other companies.

	Year Ended December 31,		
	2016	2015	2014
Total marketing customers	23,226	18,116	13,607
Average subscription revenue per customer	\$12,197	\$10,419	\$8,926
Subscription dollar retention rate	98.5 %	99.2 %	92.7 %

**Total Marketing Customers.** We believe that our ability to increase our customer base is an indicator of our market penetration and growth of our business as we continue to expand our sales force and invest in marketing efforts. We



define our total marketing customers at the end of a particular period as the number of business entities or individuals with one or more paid subscriptions to our marketing platform, either paid directly or through an agency partner. We do not include in total marketing customers business entities or individuals with one or more paid subscriptions solely for our HubSpot Sales product. A single marketing customer may have separate paid subscriptions for separate websites, but we count these as one marketing customer if the subscriptions are managed by the same business entity or individual. For more information about our marketing customers, see the section of this Annual Report on Form 10-K captioned “Business—Our Customers.”

**Average Subscription Revenue per Customer.** We believe that our ability to increase the average subscription revenue per customer is an indicator of our ability to grow the long-term value of our existing customer relationships. We define average subscription revenue per customer during a particular period as subscription revenue from our total marketing customers during the period divided by the average total marketing customers during the same period. We expect our average subscription revenue per customer to continue to increase over time.

**Subscription Dollar Retention Rate.** We believe that our ability to retain and expand a customer relationship is an indicator of the stability of our revenue base and the long-term value of our customers. We assess our performance in this area using a metric we refer to as our Subscription Dollar Retention Rate. We compare the aggregate Contractual Monthly Subscription Revenue of our marketing customer base as of the beginning of each month, which we refer to as Retention Base Revenue, to the aggregate Contractual Monthly Subscription Revenue of the same group of customers at the end of that month, which we refer to as Retained

**Subscription Revenue.** We define Contractual Monthly Subscription Revenue as the total amount of subscription fees contractually committed to be paid for a full month under all of our marketing customer agreements, excluding any commissions owed to our partners. We do not include in Contractual Monthly Subscription Revenue any subscription fees contractually committed to be paid by business entities or individuals with subscriptions solely for our HubSpot Sales product. Our Subscription Dollar Retention Rate for a given period is calculated by first dividing Retained Subscription Revenue by Retention Base Revenue for each month in the period, calculating the weighted average of these rates using the Retention Base Revenue for each month in the period, and then annualizing the resulting rates.

## Key Components of Consolidated Statements of Operations

### Revenue

We derive our revenue from two major sources, revenue from subscriptions to our inbound platform and professional services and other revenue consisting mainly of on-boarding and training services fees.

Subscription based revenue is derived from customers using our software platform for their inbound marketing and sales needs. Our software platform includes integrated applications that allow businesses to manage social media, search engine optimization, blogging, website content, marketing automation, email, analytics and reporting. Substantially all of our customers' subscriptions are one year or less in duration. Subscriptions are non-cancelable and are billed in advance on various schedules. All subscription fees that are billed in advance of service are recorded in deferred revenue. Subscription based revenue is recognized net of consideration paid to marketing agency partners when the agency partner purchases the subscription directly from us, as in these instances our customer is the partner and our remaining obligations are to the partner.

Professional services and other revenue are derived primarily from customer on-boarding and training services. The on-boarding and training services provided to customers typically involves an implementation specialist. An implementation specialist will typically work with our customers to enhance their understanding of how to attract leads and convert them into customers through search engine optimization, social media, blogging and other content. Training is generally sold in connection with a customer's initial subscription and is billed in advance. The training is also available to be purchased separately following a customer's purchase of its initial subscription and our marketing agency partners routinely provide the same training to customers. The Company recognizes revenue from on-boarding and training services as the services are provided.

### Cost of Revenue and Operating Expenses

#### Cost of Revenue

Cost of subscription revenue consists primarily of managed hosting providers and other third-party service providers, employee-related costs including payroll, benefits and stock-based compensation expense for our customer support team, amortization of capitalized software development costs and acquired technology, and allocated overhead costs, which we define as rent, facilities and costs related to information technology, or IT.

Cost of professional services and other revenue consists primarily of personnel costs of our professional services organization, including salaries, benefits, bonuses and stock-based compensation, as well as allocated overhead costs.

We expect that cost of subscription and professional services and other revenue will increase in absolute dollars as we continue to invest in growing our business. Over time, we expect to gain benefits of scale associated with our costs of hosting our software platform relative to subscription revenues, resulting in improved subscription gross margin. We expect to continue to generate negative gross margins related to professional services in the near term.

#### Research and Development

Research and development expenses consist primarily of personnel costs of our development team, including payroll, benefits and stock-based compensation expense and allocated overhead costs. We capitalize certain software development costs that are attributable to developing new products and adding incremental functionality to our software platform and amortize such costs as costs of subscription revenue over the estimated life of the new product or incremental functionality, which is generally two years. We also capitalize certain development costs that are attributable to developing our customer sales and billing platform and amortize such costs as sales and marketing or general and administrative expense over the estimated life of the customer sales and billing platform, which is generally five years. We focus our research and development efforts on improving our products and developing new ones, delivering new functionality and enhancing the customer experience. We believe delivering new functionalities for our customers is an integral part of our solution and provides our customers with access to a broad array of options and information critical to their marketing efforts. We expect to continue to make investments in and expand our offerings to enhance our customers' experience and

satisfaction and attract new customers. We expect research and development expenses to increase in absolute dollars as we continue to increase the functionality of our software platform.

#### Sales and Marketing

Sales and marketing expenses consist primarily of personnel costs of our sales and marketing employees, including sales commissions and incentives, benefits and stock-based compensation expense, marketing programs, including lead generation, costs of our annual INBOUND conference, other brand building expenses, amortization of capitalized software development costs associated with our sales and billing platform, and allocated overhead costs. We defer certain sales commissions related to acquiring new customers and amortize them ratably over the term of the corresponding subscription agreement. Sales and marketing expenses also include commissions paid to our marketing agency partners when we are the primary obligor for providing the subscription that has been purchased.

We plan to continue to expand sales and marketing to grow our customer base and increase sales to existing customers. This growth will include adding sales personnel and expanding our marketing activities to continue to generate additional leads and build brand awareness. We expect sales and marketing expenses will increase as a result of hiring net new quota-carrying sales representatives in the United States and worldwide, adding to the marketing staff and expanding our annual INBOUND conference. Over time, we expect sales and marketing expenses will decline as a percentage of total revenue.

#### General and Administrative

General and administrative expenses consist of personnel costs and related expenses for executive, finance, legal, human resources, employee-related information technology, administrative personnel, including payroll, benefits and stock-based compensation expense; professional fees for external legal, accounting and other consulting services, amortization of capitalized software development costs associated with our sales and billing platform, and allocated overhead costs. We expect that general and administrative expenses will increase on an absolute dollar basis but decrease as a percentage of total revenue as we focus on processes, systems and controls to enable our internal support functions to scale with the growth of our business. We also anticipate continuing increases to general and administrative expenses as we incur the costs of compliance associated with being a publicly traded company, including audit and consulting fees.

#### Other (Expense) Income

Other (expense) income includes interest income and expense and the impact of foreign currency transaction gains and losses associated with monetary assets and liabilities. The additions of our international offices in Dublin, Ireland in 2013, Sydney, Australia in 2014, Singapore in 2015, and Tokyo, Japan in 2016 have increased our exposure to foreign currency fluctuations.

#### Income Tax (Provision) Benefit

The income tax (provision) benefit consists of current and deferred taxes for U.S. and foreign jurisdictions. We have historically had a taxable loss in our most significant jurisdiction, the U.S., and a full valuation allowance against the majority of our deferred tax assets. We expect this to continue in the near term.

## Results of Operations

The following tables set forth certain consolidated financial data in dollar amounts and as a percentage of total revenue.

	Year Ended December 31,		
	2016	2015	2014
	(in thousands)		
<b>Revenue:</b>			
Subscription	\$254,775	\$167,920	\$106,319
Professional services and other	16,192	14,023	9,557
Total revenue	270,967	181,943	115,876
<b>Cost of revenue:</b>			
Subscription	41,182	32,271	23,655
Professional services and other	20,683	15,652	11,425
Total cost of revenue	61,865	47,923	35,080
Gross profit	209,102	134,020	80,796
<b>Operating expenses:</b>			
Research and development	45,997	32,457	25,638
Sales and marketing	162,647	112,629	78,809
General and administrative	45,120	35,408	24,958
Total operating expenses	253,764	180,494	129,405
Loss from operations	(44,662 )	(46,474 )	(48,609 )
<b>Other (expense) income:</b>			
Interest income	854	390	46
Interest expense	(265 )	(185 )	(322 )
Other expense	(956 )	628	564
Total other (expense) income	(367 )	833	288
Loss before income tax (provision) benefit	(45,029 )	(45,641 )	(48,321 )
Income tax (provision) benefit	(533 )	(412 )	92
Net loss	\$(45,562 )	\$(46,053 )	\$(48,229 )

	Year Ended December 31,		
	2016	2015	2014
<b>Revenue:</b>			
Subscription	94 %	92 %	92 %
Professional services and other	6	8	8
Total revenue	100	100	100
<b>Cost of revenue:</b>			
Subscription	15	18	20
Professional services and other	8	9	10
Total cost of revenue	23	26	30
Gross profit	77	74	70
<b>Operating expenses:</b>			
Research and development	17	18	22
Sales and marketing	60	62	68

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General and administrative	17	19	22
Total operating expenses	94	99	112
Loss from operations	(16)	(26 )	(42 )
Total other (expense) income	—	—	—
Loss before income tax (provision) benefit	(17)	(25 )	(42 )
Income tax (provision) benefit	—	—	—
Net loss	(17)%	(25 )%	(42 )%

\* Percentages are based on actual values. Totals may not sum due to rounding.

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

Revenue

	Year Ended December 31,		Change	
	2016	2015	Amount	%
	(dollars in thousands)			
Subscription	\$254,775	\$167,920	\$86,855	52%
Professional services and other	16,192	14,023	2,169	15%
Total revenue	\$270,967	\$181,943	\$89,024	49%

Subscription revenue increased 52% during 2016 due to an increase throughout the year in total marketing customers, which grew from 18,116 as of December 31, 2015 to 23,226 as of December 31, 2016, and an increase in average subscription revenue per customer, which grew from \$10,419 in 2015 to \$12,197 in 2016. The growth in total marketing customers was primarily driven by our increased sales representative capacity to meet market demand. The increase in average subscription revenue per customer was driven primarily by existing marketing customers increasing their use of our products, existing marketing customers purchasing additional subscriptions, and new marketing customers purchasing our higher price product plans.

The 15% increase in professional services and other revenue resulted primarily from the delivery of on-boarding and training services for subscriptions sold.

Total Cost of Revenue, Gross Profit and Gross Margin

	Year Ended December 31,		Change	
	2016	2015	Amount	%
	(dollars in thousands)			
Total cost of revenue	\$61,865	\$47,923	\$13,942	29%
Gross profit	209,102	134,020	75,082	56%
Gross margin	77	% 74	%	%

Total cost of revenue increased 29% during 2016 primarily due to an increase in subscription and hosting costs, employee-related costs, amortization of developed technology, and allocated overhead expenses. The increase in gross margin was primarily driven by improved leverage of our hosting costs relative to growth in subscription revenue.

	Year Ended December 31,		Change	
	2016	2015	Amount	%
	(dollars in thousands)			
Subscription cost of revenue	\$41,182	\$32,271	\$8,911	28%
Percentage of subscription revenue	16	% 19	%	%

The increase in subscription cost of revenue for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 3,564
Subscription and hosting costs	3,290
Allocated overhead expenses	1,286
Capitalized software amortization	771
	\$ 8,911



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Employee-related costs increased as a result of increased headcount as we continue to grow our customer support organization to support our customer growth and improve service levels and offerings. Subscription and hosting costs increased due to growth in our marketing customer base from 18,116 at December 31, 2015 to 23,226 at December 31, 2016. Allocated overhead expenses increased due to expansion of our leased space and infrastructure as we continue to grow our business and expand headcount. Amortization of capitalized software development costs increased due to the increased number of developers working on our software platform as we continue to develop new products and increased functionality.

	Year Ended		Change	
	December 31,		Amount %	
	2016	2015		
	(dollars in thousands)			
Professional services and other cost of revenue	\$20,683	\$15,652	\$5,031	32%
Percentage of professional services and other revenue	128	% 112	%	

The increase in professional services and other cost of revenue for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 3,222
Allocated overhead expenses	1,809
	\$ 5,031

Employee-related costs increased as a result of increased headcount as we continue to grow our professional services organization to support our customer growth. Allocated overhead expenses increased due to expansion of our leased space and infrastructure as we continue to grow our business and expand headcount.

#### Research and Development

	Year Ended		Change	
	December 31,		Amount %	
	2016	2015		
	(dollars in thousands)			
Research and development	\$45,997	\$32,457	\$13,540	42%
Percentage of total revenue	17	% 18	%	

The increase in research and development expense for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 12,206
Allocated overhead expenses	1,334
	\$ 13,540

Employee-related costs and professional fees increased as a result of increased headcount as we continue to grow our engineering organization to develop new products and increased functionality, and to maintain our existing platform. Allocated overhead expense increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount.

#### Sales and Marketing

	Year Ended December		Change	
	2016	2015	Amount	%
	(dollars in thousands)			
Sales and marketing	\$ 162,647	\$ 112,629	\$ 50,018	44%
Percentage of total revenue	60	% 62	%	

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The increase in sales and marketing expense for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 36,285
Allocated overhead expenses	7,302
Partner commissions	4,869
Marketing programs	1,562
	\$ 50,018

Employee-related costs increased as a result of increased headcount as we continue to expand our selling and marketing organizations to grow our customer base. Allocated overhead expenses increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount. Partner commissions increased as a result of increased revenue generated through our marketing agency partners. Marketing programs increased as we continue to make investments in attracting new customers, and increased the size of our annual INBOUND conference.

General and Administrative

	Year Ended December 31,		Change	
	2016	2015	Amount	%
	(dollars in thousands)			
General and administrative	\$45,120	\$35,408	\$9,712	27%
Percentage of total revenue	17	% 19	%	

The increase in general and administrative expense for the year ended December 31, 2016 compared to the year ended December 31, 2015 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 5,922
Allocated overhead expenses	1,660
Other general and administrative costs	1,121
Customer credit card fees	1,009
	\$ 9,712

Employee-related costs increased as a result of increased headcount as we continue to grow our business and require additional personnel to support our expanded operations including infrastructure and controls required for being a

public company. Allocated overhead expenses increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount. Customer credit card fees increased due to increased customer transactions as we continue to grow our business.

Other (expense) Income

	Year Ended		Change	
	December			
	31,		Amount	%
	2016	2015		
	(dollars in thousands)			
Other (expense) income	\$(367)	\$833	\$(1,200)	-144%
Percentage of total revenue	*	*		

\* not meaningful

Other (expense) income includes interest income and expense and the impact of foreign currency transaction gains and losses associated with monetary assets and liabilities. Other (expense) income fluctuated primarily as a result of changes in foreign exchange rates and the composition of our non-functional currency accounts.

## Income Tax Provision

	Year Ended		Change	
	December 31, 2016	2015	Amount	%
	(dollars in thousands)			
Income tax provision	\$ (533)	\$ (412)	\$ (121)	29%
Effective tax rate	1.2 %	0.9 %		

Income tax provision consists of current and deferred taxes for U.S. and foreign jurisdictions. Income tax provision is not significant for any period presented.

## Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

## Revenue

	Year Ended		Change	
	December 31, 2015	2014	Amount	%
	(dollars in thousands)			
Subscription	\$ 167,920	\$ 106,319	\$ 61,601	58%
Professional services and other	14,023	9,557	4,466	47%
Total revenue	\$ 181,943	\$ 115,876	\$ 66,067	57%

Subscription revenue increased 58% during 2015 due to an increase throughout the year in total marketing customers, which grew from 13,607 as of December 31, 2014 to 18,116 as of December 31, 2015, and an increase in average subscription revenue per customer, which grew from \$8,926 in 2014 to \$10,419 in 2015. The growth in total marketing customers was primarily driven by our increased sales representative capacity to meet market demand. The increase in average subscription revenue per customer was driven primarily by existing marketing customers increasing their use of our products, existing marketing customers purchasing additional subscriptions, and new marketing customers purchasing our higher price product plans.

The 47% increase in professional services and other revenue resulted primarily from the delivery of on-boarding and training services for subscriptions sold.

## Total Cost of Revenue, Gross Profit and Gross Margin

	Year Ended		Change	
	December 31, 2015	2014	Amount	%
	(dollars in thousands)			
Total cost of revenue	\$ 47,923	\$ 35,080	\$ 12,843	37%
Gross profit	134,020	80,796	53,224	66%

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Gross margin	74	%	70	%
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Total cost of revenue increased 37% during 2015 primarily due to an increase in subscription and hosting costs, employee-related costs, amortization of developed technology, and allocated overhead expenses. The increase in gross margin was primarily driven by improved leverage of our hosting costs relative to growth in subscription revenue.

	Year Ended		Change	
	December 31,	December 31,	Amount	%
	2015	2014		
	(dollars in thousands)			
Subscription cost of revenue	\$32,271	\$23,655	\$8,616	36%
Percentage of subscription revenue	19	% 22	%	

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The increase in subscription cost of revenue for the year ended December 31, 2015 compared to the year ended December 31, 2014 was primarily due to the following:

	Change (in thousands)
Subscription and hosting costs	\$ 4,981
Employee-related costs	2,166
Capitalized software amortization	749
Allocated overhead expenses	720
	\$ 8,616

Subscription and hosting costs increased due to growth in our marketing customer base from 13,607 at December 31, 2014 to 18,116 at December 31, 2015. Employee-related costs increased as a result of increased headcount as we continue to grow our customer support organization to support our customer growth and improve service levels and offerings. Amortization of capitalized software development costs increased due to the increased number of developers working on our software platform as we continue to develop new products and increased functionality. Allocated overhead expenses increased due to expansion of our leased space and infrastructure as we continue to grow our business and expand headcount.

	Year Ended		Change	
	December 31, 2015	2014	Amount	%
	(dollars in thousands)			
Professional services and other cost of revenue	\$ 15,652	\$ 11,425	\$ 4,227	37%
Percentage of professional services and other revenue	112	% 120	%	

The increase in professional services and other cost of revenue for the year ended December 31, 2015 compared to the year ended December 31, 2014 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 2,820
Allocated overhead expenses	968
Professional fees	439
	\$ 4,227

Employee-related costs increased as a result of increased headcount as we continue to grow our professional services organization to support our customer growth. Allocated overhead expenses increased due to expansion of our leased

space and infrastructure as we continue to grow our business and expand headcount. Professional fees increased due to expanded use of third parties to assist with customer data migration.

Research and Development

	Year Ended		Change	
	December 31,			
	2015	2014	Amount	%
	(dollars in thousands)			
Research and development	\$32,457	\$25,638	\$6,819	27%
Percentage of total revenue	18	% 22	%	

The increase in research and development expense for the year ended December 31, 2015 compared to the year ended December 31, 2014 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 5,280
Allocated overhead expenses	1,288
Professional fees	251
	\$ 6,819



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Employee-related costs and professional fees increased as a result of increased headcount as we continue to grow our engineering organization to develop new products and increased functionality, and to maintain our existing platform. Allocated overhead expense increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount.

Sales and Marketing

	Year Ended		Change	
	December 31, 2015	2014	Amount	%
	(dollars in thousands)			
Sales and marketing	\$ 112,629	\$ 78,809	\$ 33,820	43%
Percentage of total revenue	62	% 68	%	

The increase in sales and marketing expense for the year ended December 31, 2015 compared to the year ended December 31, 2014 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 22,783
Partner commissions	4,462
Marketing programs	3,409
Allocated overhead expenses	3,166
	\$ 33,820

Employee-related costs increased as a result of increased headcount as we continue to expand our selling and marketing organizations to grow our customer base. Partner commissions increased as a result of increased revenue generated through our marketing agency partners. Allocated overhead expenses increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount. Marketing programs increased as we continue to make investments in attracting new customers, and increased the size of our annual INBOUND conference.

General and Administrative

	Year Ended		Change	
	December 31, 2015	2014	Amount	%
	(dollars in thousands)			
General and administrative	\$ 35,408	\$ 24,958	\$ 10,450	42%
Percentage of total revenue	19	% 22	%	

The increase in general and administrative expense for the year ended December 31, 2015 compared to the year ended December 31, 2014 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 5,128
Allocated overhead expenses	2,314
Professional fees	1,618
Customer credit card fees	986
Bad debt expense	404
	\$ 10,450

Employee-related costs increased as a result of increased headcount as we continue to grow our business and require additional personnel to support our expanded operations including infrastructure and controls required for being a public company. Allocated overhead expenses increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount. Professional fees increased as a result of increased use of accounting, consulting and legal services related to international expansion and costs incurred as a public company. Customer credit card fees and bad debt expense increased due to increased customer transactions as we continue to grow our business.

## Other Income (Expense)

	Year Ended		December	
	31,		Change	
	2015	2014	Amount	%
	(dollars in thousands)			
Other income	\$833	\$288	\$545	189%
Percentage of total revenue	*	*		

\*not meaningful

Other income includes interest income and expense and the impact of foreign currency transaction gains and losses associated with monetary assets and liabilities. Other income fluctuated primarily as a result of changes in foreign exchange rates.

## Income Tax (Provision) Benefit

	Year Ended		December	
	31,		Change	
	2015	2014	Amount	%
	(dollars in thousands)			
Income tax (provision) benefit	\$(412)	\$92	\$(504)	-548%
Percentage of total revenue	*	*		

\*not meaningful

Income tax (provision) benefit consists of current and deferred taxes for U.S. and foreign jurisdictions. Income tax (provision) benefit is not significant for any period presented.

## Liquidity and Capital Resources

Our principal sources of liquidity are cash and cash equivalents, net accounts receivable and our common stock offerings. In connection with our secondary offering in March 2015 we received aggregate net proceeds of \$33.7 million and in connection with our IPO in October 2014, we received aggregate net proceeds of \$130.8 million.

The following table shows cash and cash equivalents, working capital, net cash and cash equivalents provided by (used in) operating activities, net cash and cash equivalents used in investing activities, and net cash and cash equivalents provided by financing activities for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31,		
	2016	2015	2014
	(in thousands)		
Cash and cash equivalents	\$59,702	\$55,580	\$123,721

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Working capital	48,870	54,447	90,081
Net cash and cash equivalents provided by (used in)			
operating activities	19,366	(423 )	(12,464 )
Net cash and cash equivalents used in investing activities	(22,957)	(104,104)	(10,480 )
Net cash and cash equivalents provided by financing			
activities	8,473	36,939	134,437

Our cash and cash equivalents at December 31, 2016 was held for working capital purposes. We believe our working capital is sufficient to support our operations for at least the next 12 months. At December 31, 2016, \$18.8 million of our cash and cash equivalents was held in accounts outside the United States. A portion of these funds would be subject to U.S. federal taxation if repatriated, with such tax liability partially offset by foreign tax credits. However, our intent is to indefinitely reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Net Cash and Cash Equivalents Provided by (Used in) Operating Activities

Net cash and cash equivalents provided by (used in) operating activities consists primarily of net loss adjusted for certain non-cash items, including stock-based compensation, depreciation and amortization and other non-cash charges, net.

Net cash and cash equivalents provided by operating activities during the year ended December 31, 2016 primarily reflected our net loss of \$45.6 million, offset by non-cash expenses that included \$11.2 million of depreciation and amortization, \$32.7 million in

stock-based compensation, \$0.6 million of amortization of bond premium, and \$4.0 million of non-cash rent expense. Working capital sources of cash and cash equivalents primarily included a \$32.3 million increase in deferred revenue primarily resulting from the growth in the number of customers invoiced during the period and a \$4.0 million increase in accrued expenses, and a \$1.0 million increase in accounts payable as a result of increased expense related to overall growth of the company. These sources of cash and cash equivalents were offset by a \$14.1 million increase in accounts receivable as a result of increased billings to customers consistent with the overall growth of the business, and a \$6.1 million increase in prepaid expense related to growth of the company.

Net cash and cash equivalents used in operating activities during the year ended December 31, 2015 primarily reflected our net loss of \$46.1 million, offset by non-cash expenses that included \$7.3 million of depreciation and amortization, \$21.3 million in stock-

based compensation, \$0.7 million of amortization of bond premium, \$1.8 million of non-cash rent expense, and \$0.3 million on non-cash income related to unrealized foreign currency gains. Working capital sources of cash and cash equivalents primarily included a \$24.7 million increase in deferred revenue primarily resulting from the growth in the number of customers invoiced during the period and a \$7.1 million increase in accrued expenses as a result of increased expense related to overall growth of the company. These sources of cash and cash equivalents were offset by a \$11.2 million increase in accounts receivable as a result of increased billings to customers consistent with the overall growth of the business, a \$3.4 million increase in prepaid expense related to growth of the company, and a \$2.1 million decrease in deferred commissions expense.

Net cash and cash equivalents used in operating activities during the year ended December 31, 2014 primarily reflected our net loss of \$48.2 million, offset by non-cash expenses that included \$5.7 million of depreciation and amortization, \$16.4 million in stock-based compensation, \$0.3 million of non-cash rent expense, and \$0.2 million on non-cash income related to unrealized foreign currency gains. Working capital sources of cash and cash equivalents included a \$17.1 million increase in deferred revenue primarily resulting from the growth in the number of customers invoiced during the period, a \$1.5 million increase in deferred rent associated with reimbursements by our landlord for leasehold improvements, and a \$4.7 million increase in accrued expenses as a result of increased expense related to overall growth of the company. These sources of cash and cash equivalents were offset by a \$7.3 million increase in accounts receivable as a result of increased billings to customers consistent with the overall growth of the business, and a \$2.0 million decrease in deferred commissions expense.

#### Net Cash and Cash Equivalents Used in Investing Activities

Our investing activities have consisted primarily of purchases and maturities of investments, property and equipment purchases for computer-related equipment and capitalization of software development costs.

Net cash and cash equivalents used in investing activities during the year ended December 31, 2016 consisted primarily of \$52.1 million of purchases of investments, \$15.8 million of purchased property and equipment, and \$5.7 million of capitalized software development costs. These uses of cash were offset by \$50.8 million related to maturities and sales of investments. In the year ended December 31, 2016, we continued to invest in improvements to our leased spaces.

Net cash and cash equivalents used in investing activities during the year ended December 31, 2015 consisted primarily of \$113.6 million of purchases of investments, \$8.4 million of purchased property and equipment, \$600 thousand used to acquire a business, and \$4.3 million of capitalized software development costs. These uses of cash were offset by \$23.0 million related to maturities of investments. In the year ended December 31, 2015, we continued to invest in improvements to our leased spaces.

Net cash and cash equivalents used in investing activities during the year ended December 31, 2014 was \$10.5 million. This consisted primarily of \$7.3 million of purchased property and equipment and \$4.6 million of capitalized

software development costs, offset by \$1.5 million of cash released from restrictions associated with the lease of our headquarters. In the year ended December 31, 2014, we continued to invest in improvements to our leased spaces.

#### Net Cash and Cash Equivalents Provided by Financing Activities

Our financing activities have consisted primarily of our stock offerings, the issuance of common stock under stock plans, payments of employees taxes related to the net share settlement of stock-based awards, and repayments of capital lease obligations

For the year ended December 31, 2016, cash and cash equivalents provided by financing activities consisted primarily \$11.6 million of proceeds received from the issuance of common stock under stock plans. This source of cash was offset by \$2.4 million used for payment of employee taxes related to the net share settlement of stock-based awards.

For the year ended December 31, 2015, cash and cash equivalents provided by financing activities consisted primarily of \$33.7 million of net proceeds received from the issuance of common stock and \$12.1 million of proceeds received from the issuance of common stock under stock plans. These sources of cash were offset by \$8.6 million used for payment of employee taxes related to the net share settlement of stock-based awards.

For the year ended December 31, 2014, cash and cash equivalents provided by financing activities consisted primarily of \$130.8 million of net proceeds received from our IPO, \$3.8 million from option exercises, and \$18.0 million of draw-downs and offsetting repayments under our line of credit.

#### Critical Accounting Policies and Estimates

Our management's discussion and analysis of financial condition and results of operations is based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our reported revenues, results of operations and net income or loss, as well as on the value of certain assets and liabilities on our balance sheet during and as of the reporting periods. These estimates, assumptions and judgments are necessary because future events and their effects on our results and the value of our assets cannot be determined with certainty, and are made based on our historical experience and on other assumptions that we believe to be reasonable under the circumstances. These estimates may change as new events occur or additional information is obtained, and we may periodically be faced with uncertainties, the outcomes of which are not within our control and may not be known for a prolonged period of time. Because the use of estimates is inherent in the financial reporting process, actual results could differ from those estimates.

#### Revenue Recognition

We primarily generate revenue from multiple element arrangements, which typically include subscriptions to our online software solution and on-boarding and training services. Our customers do not have the right to take possession of the online software solution. Revenue from subscriptions, including additional fees for items such as incremental contacts, is recognized ratably over the subscription period beginning on the date the subscription is made available to customers. Substantially all subscription contracts are one year or less. We recognize revenue from on-boarding and training services as the services are provided. Amounts billed that have not yet met the applicable revenue recognition criteria are recorded as deferred revenue.

As part of accounting for multiple element arrangements, we must assess if each component has value on a standalone basis and should be treated as a separate unit of accounting. There is an in-depth process that we undergo to determine the standalone value for each component where we determine if an individual component could be sold by itself or if the component is sold by other third parties. If the component has standalone value upon delivery, we account for each component separately. Subscription services have standalone value as they are often sold separate from all other services. On-boarding and training services also have standalone value as they are sold separately by us and by third parties.

We allocate total arrangement fees to each element in a multiple element arrangement based on the relative selling price hierarchy of each element. We establish vendor-specific objective evidence of fair value, or VSOE, the most reliable level of allocating standalone value, for our subscription on-boarding and training services when there are a meaningful number of stand-alone transactions in a relevant period and a significant number of those stand-alone transactions have consistent pricing. We note that third party evidence, or TPE, the second most reliable level of allocating standalone value, is not available for determining the standalone value for any of our services because the pricing for any similar third party subscription or on-boarding and training services is inconsistent. Therefore, when we cannot establish VSOE, we rely on best estimate of selling price, or BESP, to allocate value to the various components of our arrangements.

To determine VSOE, we consider the median stand-alone sales prices of each type of subscription, on-boarding and training services. We then establish a reasonable range around the stand-alone median pricing, typically plus or minus 20% of the median stand-alone selling price. To determine BESP, we consider the median actual sales price of each type of subscription and on-boarding and training services. We then establish a reasonable range around the median pricing, typically plus or minus 20% of the median selling price. For any transactions where a deliverable falls outside

of either the VSOE or BESP 20% range, we reallocate arrangement consideration amongst the deliverables using their respective median selling prices.

We pay our marketing and sales agency partners a commission on the subscription sales price for sales to customers. The classification of the commission paid on our consolidated statements of operations depends on who is purchasing our subscription. In instances where the customer is purchasing the subscription, we are the primary obligor and record the commission paid to the agency partner as sales and marketing expense. When the agency partner purchases the subscription directly from us, we net the consideration paid to the partner against the associated revenue we recognize, as in these instances our customer is the partner and our remaining obligations are to the partner. We also do not believe we receive a tangible benefit from the payment back to the partner.

#### Capitalized Software Development Costs

Software development costs consist of certain payroll and stock compensation costs incurred to develop functionality for our software and sales and billing platforms, as well as certain upgrades and enhancements that are expected to result in enhanced



functionality. We capitalize certain software development costs for new offerings as well as upgrades to our existing software platforms. We amortize these development costs over the estimated useful life of two to five years on a straight-line basis. We believe there are two key estimates within the capitalized software balance, which are the determination of the useful life of the software and the determination of the amounts to be capitalized.

We determined that a two to five year life is appropriate for our internal-use software based on our best estimate of the useful life of the internally developed software after considering factors such as continuous developments in the technology, obsolescence and anticipated life of the service offering before significant upgrades. Based on our prior experience, internally generated software will generally remain in use for a minimum of two to five years before being significantly replaced or modified to keep up with evolving customer and company needs. While we do not anticipate any significant changes to this two to five year estimate, a change in this estimate could produce a material impact on our financial statements. For example, if we received information that indicated the useful life of all internally developed software was one year rather than two, our capitalized software balance would decrease by approximately 50% and our amortization expense would increase by 50% in the year of adoption of the change in estimate.

We determine the amount of internal software costs to be capitalized based on the amount of time spent by our developers on projects. Costs associated with building or significantly enhancing our software and sales and billing platforms are capitalized, while costs associated with planning new developments and maintaining our software and sales and billing platforms are expensed as incurred. There is judgment involved in estimating the stage of development as well as estimating time allocated to a particular project. A significant change in the time spent on each project could have a material impact on the amount capitalized and related amortization expense in subsequent periods.

#### Stock-Based Compensation

We recognize compensation expense for option awards based on the fair value of the award and on a straight-line basis over the vesting period of the award based on the estimated portion of the award that is expected to vest.

Inherent in the valuation and recording of stock-based compensation for option awards, there are several estimates that we make, including in regard to valuation and expense that will be incurred. We apply estimated forfeiture rates to the awards based on analyses of historical data, including termination patterns, employee position and other factors. This is done to record the expense we expect to actually incur for employees that provide the required service time.

We use the Black-Scholes option pricing model to measure the fair value of our option awards when they are granted. For stock options and RSUs granted subsequent to our IPO, our board of directors determined the fair value based on the closing price of our common stock as reported on the New York Stock Exchange on the date of grant. We used the daily historical volatility of companies we consider to be our peers. To determine our peer companies, we used the following criteria: software or software-as-a-service companies; similar histories and relatively comparable financial leverage; sufficient public company trading history; and in similar businesses and geographical markets. We used the peers' stock price volatility over the expected life of our granted options to calculate the expected volatility. The expected term of employee option awards is determined using the average midpoint between vesting and the contractual term for outstanding awards, or the simplified method, because we do not yet have a sufficient history of option exercises. We consider this appropriate as we plan to see changes to our equity structure in the future and there is no other method that would be more indicative of exercise activity. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. We have not paid dividends and do not anticipate paying a cash dividend in the foreseeable future and, accordingly, use an expected dividend yield of zero.

The following table summarizes the assumptions, other than fair value of our common stock, relating to our stock options granted in the years ended December 31, 2016, 2015, and 2014:

	Year Ended December 31,		
	2016	2015	2014
Dividend yield	—	—	—
	38.0	43.0	
	-	-	
Expected volatility (%)	41.0	51.6	44.8-50.9
	1.38	1.36	
	-	-	
Risk-free interest rate (%)	1.41	1.53	1.79-2.67
	5.08	6.18	
	-	-	
Expected term (years)	6.21	6.22	5.0-6.5

In addition to the assumptions used in the Black-Scholes option-pricing model, we must also estimate a forfeiture rate to calculate the stock-based compensation expense for our awards. Our forfeiture rate is based on an analysis of our actual forfeitures. We will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover and other factors. Changes in the estimated forfeiture rate can have a significant impact on our stock-based compensation expense as the cumulative effect of adjusting the rate is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the stock-based compensation expense recognized in our financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the share-based compensation expense recognized in our financial statements.

We will continue to use judgment in evaluating the expected volatility, expected term and forfeiture rate utilized in our stock-based compensation expense calculations on a prospective basis. As we continue to accumulate additional data related to our common stock, we may refine our estimates of expected volatility, expected term and forfeiture rates, which could materially impact our future stock-based compensation expense.

### Goodwill Impairment

Goodwill represents the excess of the cost of an acquired entity over the net fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but rather is assessed for impairment at least annually. We performed our annual impairment assessment on November 30, 2016. We operate under one reporting unit and as a result, evaluate goodwill impairment based on our fair value as a whole.

To determine the number of operating segments and reporting units that are present, we analyzed whether there is any customer, product or geographic information that drives the chief operating decision maker (our chief executive and operating officers) decisions on how to allocate resources and whether any segment management exists. Management has concluded that operating decisions are made at the consolidated company level and there is no segment management in place that reviews results of operations with the chief operating decision maker.

In assessing goodwill for impairment, an entity has the option to assess qualitative factors to determine whether events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, it is more likely than not that the fair value of the reporting unit is greater than its carrying value, then performing the two-step impairment test is unnecessary. An entity can choose not to perform a qualitative assessment for any of its reporting units, and proceed directly to the use of the two-step impairment test.

When assessing goodwill for impairment for the year ended December 31, 2016, we decided to use the two-step quantitative analysis. We determined our enterprise value at the measurement date by using our market capitalization. Based on the results of our most recent annual assessment performed on November 30, 2016, we concluded that the fair value of our reporting unit significantly exceeded its carrying amount and there was no impairment of goodwill.

### Contractual Obligations and Commitments

Contractual obligations are cash that we are obligated to pay as part of certain contracts that we have entered during our course a business. Certain of our leases contain optional termination dates. The table below only includes payments up to the optional termination date. If we were to extended leases beyond the optional termination date the future commitments would increase by approximately \$12.7 million. Below is a table that shows the projected outlays as of December 31, 2016:

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	Payments due in:				
	Less				More
	than	1-3	3-5		than
	Total	1 Year	Years	Years	5 Years
	(in thousands)				
Capital lease obligations	\$1,111	\$827	\$284	\$—	\$—
Operating leases obligations	173,143	12,707	31,105	33,300	96,031
Vendor commitments	46,744	15,013	29,455	969	1,307
Total	\$220,998	\$28,547	\$60,844	\$34,269	\$97,338

In January 2017, we entered into a new nineteen year property lease in Dublin, Ireland, with an option to break the lease after ten years and six months, for approximately 16,000 square feet of space. The lease is expected to commence in August 2017 and we will pay an aggregate of approximately \$9.8 million in rent over the initial ten-year six-month lease period.

## Letters of Credit

As of December 31, 2016, we had a total of \$4.4 million in letters of credit outstanding substantially in favor of certain landlords for office space. These letters of credit renew annually and expire at various dates through October 2027.

## Off Balance Sheet Arrangements

We have no material off-balance sheet arrangements at December 31, 2016 or 2015 exclusive of items described above and indemnifications of officers, directors and employees for certain events or occurrences while the officer, director or employee is, or was, serving at our request in such capacity.

## Recent Accounting Pronouncements

For information on recent accounting pronouncements, see Recent Accounting Pronouncements in the notes to the consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K.

## ITEM 7A. Qualitative and Quantitative Disclosures About Market Risk Foreign Currency Exchange Risk

We have foreign currency risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, primarily the Euro, British Pound Sterling, Australian dollar, Singaporean dollar, and Japanese Yen. Decreases in the relative value of the U.S. dollar to other currencies may negatively affect our revenue and other operating results as expressed in U.S. dollars.

We have experienced and will continue to experience fluctuations in our net loss as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. We recognized immaterial amounts of foreign currency gains and losses in each of the periods presented. We have not engaged in the hedging of our foreign currency transactions to date, we are evaluating the costs and benefits of initiating such a program and may in the future hedge selected significant transactions denominated in currencies other than the U.S. dollar as we expand our international operation and our risk grows.

## Interest Rate Sensitivity

Our portfolio of cash and cash equivalents and short- and long-term investments is maintained in a variety of securities, including government agency obligations, corporate bonds and money market funds. Investments are classified as available-for-sale securities and carried at their fair market value with cumulative unrealized gains or losses recorded as a component of accumulated other comprehensive loss within stockholders' equity. A sharp rise in interest rates could have an adverse impact on the fair market value of certain securities in our portfolio. We do not currently hedge our interest rate exposure and do not enter into financial instruments for trading or speculative purposes. We have a revolving credit line which had no outstanding balance as of December 31, 2016. The interest rate associated with the revolving line is the prime lending rate plus 0.5%.

## Inflation Risk

We do not believe that inflation has had a material effect on our business. However, if our costs, in particular personnel, sales and marketing and hosting costs, were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, operating results and financial condition.

ITEM 8. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of HubSpot, Inc.

In our opinion, the accompanying consolidated balance sheet as of December 31, 2016 and the related consolidated statements of operations, of comprehensive loss, of redeemable convertible preferred stock and stockholders' equity (deficit) and of cash flows for the year then ended present fairly, in all material respects, the financial position of HubSpot, Inc. and its subsidiaries at December 31, 2016, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 16, 2017

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of HubSpot, Inc.

Cambridge, Massachusetts

We have audited the accompanying consolidated balance sheet of HubSpot, Inc. and subsidiaries (the "Company") as of December 31, 2015, and the related consolidated statements of operations, comprehensive loss, redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for the years ended December 31, 2015 and 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of HubSpot, Inc. and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for the years ended December 31, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 24, 2016



HUBSPOT, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	December 31,  2016	December 31,  2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$59,702	\$55,580
Short-term investments	54,648	48,972
Accounts receivable—net of allowance for doubtful accounts of \$617 and \$371 at December 31, 2016 and 2015, respectively	38,984	25,142
Deferred commission expense	9,025	8,114
Restricted cash	162	—
Prepaid hosting costs	5,299	3,047
Prepaid expenses and other current assets	8,433	4,899
<b>Total current assets</b>	<b>176,253</b>	<b>145,754</b>
Long-term investments	35,718	40,566
Property and equipment, net	30,201	18,161
Capitalized software development costs, net	6,523	4,655
Restricted cash	321	363
Other assets	950	1,007
Intangible assets, net	16	100
Goodwill	9,773	9,773
<b>Total assets</b>	<b>259,755</b>	<b>220,379</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	4,350	2,588
Accrued compensation costs	11,415	11,371
Other accrued expenses	15,237	12,313
Capital lease obligations	796	542
Deferred rent	159	86
Deferred revenue	95,426	64,407
<b>Total current liabilities</b>	<b>127,383</b>	<b>91,307</b>
Capital lease obligations, net of current portion	275	277
Deferred rent, net of current portion	10,079	6,345
Deferred revenue, net of current portion	1,171	732
Asset retirement obligations	591	—
Other long-term liabilities	1,556	10
<b>Total liabilities</b>	<b>141,055</b>	<b>98,671</b>
<b>Commitments and contingencies (Note 8)</b>		
<b>Stockholders' equity:</b>		
Common stock, \$0.001 par value—authorized, 500,000 shares; issued and	36	34

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outstanding, 35,784 and 34,313 at December 31, 2016 and 2015, respectively

Additional paid-in capital	365,444	322,833
Accumulated other comprehensive loss	(864 )	(805 )
Accumulated deficit	(245,916)	(200,354)
Total stockholders' equity	118,700	121,708
Total liabilities and stockholders' equity	\$259,755	\$220,379

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

HUBSPOT, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2016	2015	2014
<b>Revenue:</b>			
Subscription	\$254,775	\$167,920	\$106,319
Professional services and other	16,192	14,023	9,557
Total revenue	270,967	181,943	115,876
<b>Cost of Revenue:</b>			
Subscription	41,182	32,271	23,655
Professional services and other	20,683	15,652	11,425
Total cost of revenue	61,865	47,923	35,080
Gross profit	209,102	134,020	80,796
<b>Operating expenses:</b>			
Research and development	45,997	32,457	25,638
Sales and marketing	162,647	112,629	78,809
General and administrative	45,120	35,408	24,958
Total operating expenses	253,764	180,494	129,405
Loss from operations	(44,662 )	(46,474 )	(48,609 )
<b>Other (expense) income:</b>			
Interest income	854	390	46
Interest expense	(265 )	(185 )	(322 )
Other (expense) income	(956 )	628	564
Total other (expense) income	(367 )	833	288
Loss before income tax (provision) benefit	(45,029 )	(45,641 )	(48,321 )
Income tax (provision) benefit	(533 )	(412 )	92
Net loss	(45,562 )	(46,053 )	(48,229 )
Preferred stock accretion	—	—	331
Net loss attributable to common stockholders	\$(45,562 )	\$(46,053 )	\$(48,560 )
Net loss attributable to common stockholders per common share, basic and			
diluted	\$(1.29 )	\$(1.39 )	\$(4.20 )
Weighted average common shares used in computing basic and diluted net			
loss attributable to common stockholders per common share:	35,197	33,222	11,562

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

HUBSPOT, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Year ended December 31,		
	2016	2015	2014
Net loss	\$(45,562)	\$(46,053)	\$(48,229)
Other comprehensive loss:			
Foreign currency translation adjustments	(172 )	(272 )	(66 )
Changes in unrealized losses on investments, net of income taxes of \$71 in 2016, \$0 in 2015, and \$0 in 2014.	113	(388 )	—
Comprehensive loss	\$(45,621)	\$(46,713)	\$(48,295)

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

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## HUBSPOT, INC.

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

(In thousands, except per share amounts)

	Redeemable		Common		Accumulated			
	Convertible		Stock, \$0.001		Additional	Other		
	Preferred Stock Shares	Amount	Par Value Shares	Amount	Paid-In Capital	Comprehensive Loss	Accumulated Deficit	Total
Balances at January 1, 2014	58,589	\$101,293	5,301	\$ 5	\$12,898	\$ (79 )	\$ (106,072 )	\$ (93,248 )
Exercise of common stock options	—	—	850	1	3,793	—	—	3,794
Stock-based compensation	—	—	—	—	16,593	—	—	16,593
Accretion of redeemable convertible								
preferred stock	—	331	—	—	(331 )	—	—	(331 )
Conversion of preferred stock to common								
stock	(58,589)	(101,624)	19,530	20	101,604	—	—	101,624
Issuance of common stock in relation to								
Initial Public Offering, net of offering								
costs incurred of \$3,126	—	—	5,750	6	130,556	—	—	130,562
Cumulative translation adjustment	—	—	—	—	—	(66 )	—	(66 )
Net loss	—	—	—	—	—	—	(48,229 )	(48,229 )
Balances at December 31, 2014	—	\$—	31,431	\$				