HUBSPOT INC

FORM 10-Q
(Quarterly Report)

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Address	25 FIRST STREET 2ND FLOOR CAMBRIDGE, MA, 02141
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Industry	Software
Sector	Technology
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2021

OR

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

FOR THE TRANSITION PERIOD FROM _________ TO _________

COMMISSION FILE NUMBER 001-36680

HubSpot, Inc.

(Exact name of registrant as specified in its charter)

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

25 First Street
Cambridge, Massachusetts 02141
(Address of principal executive offices) (Zip Code)

(888) 482-7768
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	HUBS	New York Stock Exchange

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. YES ☐ NO ☐

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

There were 47,005,359 shares of the registrant's Common Stock issued and outstanding as of July 30, 2021.

HUBSPOT, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and these statements involve substantial risks and uncertainties. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q are forward-looking statements. 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,” “projects,” “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 Quarterly Report on Form 10-Q 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 expectations regarding the potential impact of the COVID-19 pandemic on our business, operations, and the markets in which we and our partners and customers operate;
- our anticipated areas of investments, including sales and marketing, research and development, customer service and support, data center infrastructure and service capabilities, and expectations relating to such investments;
- 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, selling and servicing 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;
- our plans regarding declaring or paying cash dividends in the foreseeable future; 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 Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, 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 Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law.

We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

In this Quarterly Report on Form 10-Q, the terms “HubSpot,” “we,” “us,” and “our” refer to HubSpot, Inc. and its subsidiaries, unless the context indicates otherwise.

Risk Factor Summary

The risk factors detailed in Item 1A entitled "Risk Factors" in this Quarterly Report on Form 10-Q are the risks that we believe are material to our investors and a reader should carefully consider them. Those risks are not all of the risks we face and other factors not presently known to us or that we currently believe are immaterial may also affect our business if they occur. The following is a summary of the risk factors detailed in Item 1A:

- The effects of the COVID-19 pandemic have materially affected how we and our customers are operating our businesses, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.
- We are dependent upon customer renewals, the addition of new customers, increased revenue from existing customers and the continued growth of the market for a CRM Platform.
- We face significant competition from both established and new companies offering marketing, sales and customer service 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.
- Failure to effectively develop and expand our marketing, sales, customer service, and content management capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our platform.
- If we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards and changing customer needs or requirements, our CRM Platform may become less competitive.
- 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.
- 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.
- If our CRM Platform has outages or 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.
- If our or our customers' security measures are compromised or unauthorized access to data of our customers or their customers is otherwise obtained, our CRM 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.
- We have a history of losses and may not achieve profitability in the future.
- 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.
- 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.
- Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

PART I — Financial Information

tem 1. Financial Statements

HubSpot, Inc.
Unaudited Consolidated Balance Sheets
(in thousands)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 338,336	$ 378,123
Short-term investments	875,395	873,073
Accounts receivable — net of allowance for doubtful accounts of $1,388 and $1,993 at June 30, 2021 and December 31, 2020, respectively	117,030	126,433
Deferred commission expense	52,941	44,576
Prepaid expenses and other current assets	42,626	34,716
Total current assets	1,426,328	1,456,921
Long-term investments	83,762	30,697
Property and equipment, net	97,885	101,123
Capitalized software development costs, net	33,513	24,943
Right-of-use assets	257,323	275,893
Deferred commission expense, net of current portion	35,211	28,296
Other assets	25,157	13,893
Intangible assets, net	11,644	10,282
Goodwill	47,789	31,318
Total assets	$ 2,018,612	$ 1,973,366
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 12,178	$ 13,540
Accrued compensation costs	51,986	44,054
Accrued expenses and other current liabilities	44,744	37,184
Convertible senior notes	64,762	7,837
Operating lease liabilities	31,410	30,020
Deferred revenue	358,830	312,866
Total current liabilities	563,910	445,501
Operating lease liabilities, net of current portion	259,696	279,664
Deferred revenue, net of current portion	3,403	3,636
Other long-term liabilities	12,056	10,811
Convertible senior notes	373,863	471,099
Total liabilities	1,212,928	1,210,711
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock	47	46
Additional paid-in capital	1,334,301	1,241,167
Accumulated other comprehensive loss	2,228	4,603
Accumulated deficit	(530,892)	(483,161)
Total stockholders' equity	805,684	762,655
Total liabilities and stockholders' equity	$ 2,018,612	$ 1,973,366

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

HubSpot, Inc.
Unaudited Consolidated Statements of Operations
(in thousands, except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenues:				
Subscription	$ 300,423	$ 196,415	$ 570,686	$ 387,643
Professional services and other	10,365	7,193	21,467	14,932
Total revenue	310,788	203,608	592,153	402,575
Cost of revenues:				
Subscription	51,134	30,400	94,986	60,135
Professional services and other	11,743	8,377	22,625	16,926
Total cost of revenues	62,877	38,777	117,611	77,061
Gross profit	247,911	164,831	474,542	325,514
Operating expenses:				
Research and development	72,104	49,372	140,500	95,573
Sales and marketing	157,799	102,600	298,817	204,928
General and administrative	34,610	26,484	66,860	52,741
Total operating expenses	264,513	178,456	506,177	353,242
Loss from operations	(16,602)	(13,625)	(31,635)	(27,728)
Other expense:				
Interest income	341	2,135	816	6,192
Interest expense	(7,179)	(16,809)	(16,578)	(22,761)
Other income (expense)	528	(91)	1,188	(1,143)
Total other expense	(6,310)	(14,765)	(14,574)	(17,712)
Loss before income tax expense	(22,912)	(28,390)	(46,209)	(45,440)
Income tax expense	(1,660)	(1,011)	(1,522)	(1,677)
Net loss	$ (24,572)	$ (29,401)	$ (47,731)	$ (47,117)
Net loss per share, basic and diluted	$ (0.53)	$ (0.67)	$ (1.02)	$ (1.08)
Weighted average common shares used in computing basic and diluted net loss per share:	46,777	44,130	46,603	43,703

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

HubSpot, Inc.
Unaudited Consolidated Statements of Comprehensive Loss
(in thousands)

	For the Three Months Ended June 30, 2021	For the Three Months Ended June 30, 2020	For the Six Months Ended June 30, 2021	For the Six Months Ended June 30, 2020
Net loss	$ (24,572)	$ (29,401)	$ (47,731)	$ (47,117)
Other comprehensive loss:				
Foreign currency translation adjustment	534	1,159	(1,955)	82
Changes in unrealized (loss) gain on investments, net of income taxes of ($7) and ($43) for the three and six months ended June 30, 2021, and $0 and ($76) thousand for the three and six months ended June 30, 2020	(180)	132	(420)	715
Comprehensive loss	$ (24,218)	$ (28,110)	$ (50,106)	$ (46,320)

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

HubSpot, Inc.
Unaudited Consolidated Statements of Cash Flows
(in thousands)

	For the Six Months Ended June 30, 2021	For the Six Months Ended June 30, 2020
Operating Activities:		
Net loss	$ (47,731)	$ (47,117)
Adjustments to reconcile net loss to net cash and cash equivalents provided by operating activities		
Depreciation and amortization	21,736	17,683
Stock-based compensation	75,856	58,837
Loss on early extinguishment of 2022 Convertible Notes	3,088	10,493
Repayment of 2022 Convertible Notes attributable to the debt discount	(13,028)	(48,675)
Gain on strategic investments	(1,022)	—
Benefit from deferred income taxes	(1,120)	(422)
Amortization of debt discount and issuance costs	12,512	11,662
Amortization (accretion) of bond discount	1,670	(3,490)
Unrealized currency translation	280	184
Changes in assets and liabilities		
Accounts receivable	8,944	5,930
Prepaid expenses and other assets	(7,694)	(20,420)
Deferred commission expense	(16,402)	(5,837)
Right-of-use assets	18,547	13,398
Accounts payable	(1,269)	1,837
Accrued expenses and other liabilities	15,533	444
Operating lease liabilities	(18,374)	(12,314)
Deferred revenue	49,365	7,128
Net cash and cash equivalents provided by (used in) operating activities	100,891	(10,679)
Investing Activities:		
Purchases of investments	(654,063)	(967,028)
Maturities of investments	596,602	710,002
Sale of investments	—	10,932
Purchases of property and equipment	(10,746)	(19,897)
Acquisition of a business, net of cash acquired	(16,810)	—
Purchases of strategic investments	(6,202)	(1,000)
Equity method investment	(3,100)	—
Capitalization of software development costs	(16,421)	(10,163)
Net cash and cash equivalents used in investing activities	(110,740)	(277,154)
Financing Activities:		
Proceeds from settlement of Convertible Note Hedges related to the 2022 Convertible Notes	725	362,492
Proceeds from issuance of 2025 Convertible Notes, net of issuance costs paid of $9.4 million	—	450,614
Payments for settlement of Warrants related to the 2022 Convertible Notes	—	(327,543)
Repayment of 2022 Convertible Notes attributable to the principal	(45,409)	(234,366)
Payments for Capped Call Options related to the 2025 Convertible Notes	—	(50,600)
Employee taxes paid related to the net share settlement of stock-based awards	(6,913)	(2,200)
Proceeds related to the issuance of common stock under stock plans	24,868	15,208
Repayments of finance lease obligations	—	(28)
Net cash and cash equivalents (used in) provided by financing activities	(26,729)	213,577
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(3,209)	(144)
Net increase in cash, cash equivalents and restricted cash	(39,787)	(74,400)
Cash, cash equivalents and restricted cash, beginning of period	381,152	278,515
Cash, cash equivalents and restricted cash, end of period	$ 341,365	$ 204,115
Supplemental cash flow disclosure:		
Cash paid for interest	$ 948	$ 508
Cash paid for income taxes	$ 4,198	$ 1,646
Right-of-use assets obtained in exchange for operating lease liabilities	$ 3,767	$ 51,742
Non-cash investing and financing activities:		
Issuance of common stock for repayment of 2022 Convertible Notes	$ 209,859	$ 330,497
Capital expenditures incurred but not yet paid	$ 219	$ 447
Asset retirement obligations	$ 71	$ 87
2025 Convertible Notes issuance costs incurred but not paid	$ —	$ 490

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

1. Organization and Operations

HubSpot, Inc. (the "Company") provides a cloud-based customer relationship management ("CRM") Platform, that enables companies to attract, engage, and delight customers throughout the customer experience. The Company's CRM Platform comprised of Marketing Hub, Sales Hub, Service Hub, content management system ("CMS") Hub and Operations Hub (released in April 2021) features integrated applications and tools that enable businesses to create a cohesive and adaptable customer experience.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") applicable to interim periods, under the rules and regulations of the United States Securities and Exchange Commission ("SEC"). In the opinion of management, the Company has prepared the accompanying unaudited consolidated financial statements on a basis substantially consistent with the audited consolidated financial statements of the Company as of and for the year ended December 31, 2020, and these consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results of the interim periods presented. All intercompany balances and transactions have been eliminated in consolidation.

The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2021. The year-end balance sheet data was derived from audited financial statements, but this Form 10-Q does not include all disclosures required under GAAP. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted under the rules and regulations of the SEC.

These interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K filed with the SEC on February 16, 2021. There have been no changes in the Company's significant accounting policies from those that were disclosed in the Company's Annual Report on Form 10-K that have had a material impact on our consolidated financial statements and related notes.

In March 2020, the World Health Organization ("WHO") declared the outbreak of a disease caused by a novel strain of the coronavirus ("COVID-19") to be a global pandemic (the "pandemic"). The Company has assessed the impact of the pandemic, and while the broader implications of the pandemic on the results of operations and overall financial performance remain uncertain, the Company assessed the potential impact on the June 30, 2021 financial statements and determined there were no material adjustments necessary with respect to these consolidated financial statements.

In March 2020, the Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law by the United States. The CARES Act provides a substantial stimulus and assistance package intended to address the impact of the pandemic, including tax relief and government loans, grants, and investments. In June 2020, the Jobs Support Scheme ("JSS") was announced by the Singapore government to provide support to employers and help enterprises retain their local employees during the pandemic. In March 2021, the American Rescue Plan was passed to build upon the measures in the CARES Act and provide direct relief to those impacted by the pandemic. The CARES Act, the JSS and the American Rescue Plan did not have a material impact with respect to these consolidated financial statements.

Recent Accounting Pronouncements

Recent accounting standards not included below are not expected to have a material impact on our consolidated financial position and results of operations.

In August 2020, the FASB issued guidance simplifying the accounting for convertible instruments by reducing the number of accounting models for convertible debt instruments and convertible preferred stock. Limiting the accounting models results in fewer embedded conversion features being bifurcated from the host contract and separately recognized as compared with current GAAP. In addition, it eliminates the treasury stock method for calculating diluted earnings per share for convertible instruments and requires the use of the if-converted method. The new standard will be effective for the Company on January 1, 2022, with early adoption permitted. The Company is currently evaluating the impact of adoption of the standard on its consolidated financial statements.

2. Revenues

Disaggregation of Revenue

The Company provides disaggregation of revenue based on geographic region (Note 16) and based on the subscription versus professional services and other classification on the consolidated statements of operations as it believes these best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Deferred Revenue and Deferred Commission Expense

Amounts that have been invoiced are recorded in accounts receivable and deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. Deferred revenue represents amounts billed for which revenue has not yet been recognized. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue, and the remaining portion is recorded as long-term deferred revenue. Deferred revenue during the six months ended June 30, 2021 increased by $45.7 million resulting from $356.5 million of additional invoicing and was offset by revenue recognized of $310.8 million during the same period. $180.7 million of revenue was recognized during the three months ended June 30, 2021 that was included in deferred revenue at the beginning of the period. $240.1 million of revenue was recognized during the six months ended June 30, 2020 that was included in deferred revenue at the beginning of the period. As of June 30, 2021, approximately $305.8 million of revenue is expected to be recognized from remaining performance obligations for contracts with original performance obligations that exceed one year. The Company expects to recognize revenue on approximately 93% of these remaining performance obligations over the next 24 months, with the balance recognized thereafter.

Additional contract liabilities of $1.9 million and $1.7 were included in accrued expenses and other current liabilities on the consolidated balance sheet as of June 30, 2021 and December 31, 2020.

The incremental direct costs of obtaining a contract, which primarily consist of sales commissions paid for new subscription contracts, are deferred and amortized on a straight-line basis over a period of approximately one to three years. The one to three-year period has been determined by taking into consideration the type of product sold, the commitment term of the customer contract, the nature of the Company's technology development life-cycle, and an estimated customer relationship period. Sales commissions for upgrade contracts are deferred and amortized on a straight-line basis over the remaining estimated customer relationship period of the related customer. Deferred commission expense that will be recorded as expense during the succeeding 12-month period is recorded as current deferred commission expense, and the remaining portion is recorded as long-term deferred commission expense.

Deferred commission expense during the three months ended June 30, 2021 increased by $10.3 million as a result of deferring incremental costs of obtaining a contract of $25.9 million and was offset by amortization of $15.6 million during the same period. Deferred commission expense during the six months ended June 30, 2021 increased by $15.3 million as a result of deferring incremental costs of obtaining a contract of $46.6 million and was offset by amortization of $31.3 million during the same period.

3. Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of this calculation, options to purchase common stock, restricted stock units ("RSUs"), shares issued pursuant to the Employee Stock Purchase Plan ("ESPP"), the Warrants (defined in Note 9), the Conversion Option of the 2022 Notes, and the Conversion Option of the 2025 Notes (the "Conversion Options") (Note 9) are considered to be potential common stock equivalents.

A reconciliation of the denominator used in the calculation of basic and diluted net loss per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net loss	$ (24,572)	$ (29,401)	$ (47,731)	$ (47,117)
Weighted-average common shares outstanding — basic	46,777	44,130	46,603	43,703
Dilutive effect of share equivalents resulting from stock options, RSUs, ESPP, Warrants and the Conversion Options	—	—	—	—
Weighted-average common shares, outstanding — diluted	46,777	44,130	46,603	43,703
Net loss per share, basic and diluted	$ (0.53)	$ (0.67)	$ (1.02)	$ (1.08)

Since the Company incurred net losses for each of the periods presented, diluted net loss per share is the same as basic net loss per share. All of the Company's outstanding stock options, RSUs, and shares issuable under the ESPP, as well as the Warrants and Conversion Options were excluded in the calculation of diluted net loss per share as the effect would be anti-dilutive.

The Company expects to settle the principal amount of the 2022 Notes and 2025 Notes (collectively, the "Notes") (Note 9) in cash, and therefore, the Company uses the treasury stock method for calculating any potential dilutive effect of the Warrants and Conversion Options on diluted net income per share, if applicable. As a result, only the amount by which the conversion cost of the Notes, if settled in shares, exceeds the aggregated principal amount of the Notes (the "Conversion Spread") is considered in the diluted earnings per share computation. The Conversion Spread has a dilutive impact on net income per share when the average market price of the Company's common stock for a given period of time exceeds the initial conversion price of $94.77 per share for the 2022 Notes and $282.52 for the 2025 Notes. The average stock price for the three months ended June 30, 2021 was $521.54 and for the six months ended June 30, 2021 was $481.12.

As the last reported sale price of the Company's common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the calendar quarter ended June 30, 2021 was equal to or greater than 130% of the conversion price of $94.77 on each applicable trading day, the 2022 Notes are convertible at the option of the holders thereof during the calendar quarter ended June 30, 2021. In the second quarter of 2021, the Company settled $12.7 million of principal balance of the 2022 Notes in cash. As of July 30, 2021, the Company has received conversion notices for approximately $46.4 million of the principal balance of the 2022 Notes, which will be settled in cash during the quarter ended September 30, 2021. For disclosure purposes, the potentially dilutive effect of the Conversion Spread is calculated and included in the table below.

As the last reported sale price of the Company's common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the calendar quarter ended June 30, 2021 was equal to or greater than 130% of the conversion price of $282.52 on each applicable trading day, the 2025 Notes are convertible at the option of the holders thereof during the calendar quarter ended June 30, 2021. As of July 30, 2021, no holders have converted or indicated their intention to convert the 2025 Notes. For disclosure purposes, the potentially dilutive effect of the Conversion Spread is calculated and included in the table below.

The following table contains all potentially dilutive common stock equivalents.

	As of June 30,	
	2021	2020
	(in thousands)	
Options to purchase common shares	749	1,280
RSUs	1,462	1,865
Conversion Option of the 2022 Notes and Warrants	1,830	2,831
Conversion Option of the 2025 Notes	664	—
ESPP	8	—

4. Fair Value of Financial Instruments

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets or liabilities.

The following table details the fair value measurements within the fair value hierarchy of the Company's financial assets and liabilities at June 30, 2021 and December 31, 2020:

	June 30, 2021			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents and investments:				
Money market funds	$ 166,818	$ —	$ —	$ 166,818
Commercial paper	—	201,194	—	201,194
Corporate bonds	—	213,190	—	213,190
U.S. Government agency securities	—	6,795	—	6,795
U.S. Treasury securities	—	537,978	—	537,978
Restricted cash:				
Money market funds	—	3,029	—	3,029
Total	$ 166,818	$ 962,186	$ —	$ 1,129,004

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Cash equivalents and investments:				
Money market funds	$ 172,485	$ —	$ —	$ 172,485
Commercial paper	—	12,233	—	12,233
Corporate bonds	—	116,371	—	116,371
U.S. Treasury securities	—	774,772	—	774,772
Certificates of deposit		394	—	394
Restricted cash:				
Money market funds	—	3,029	—	3,029
Total	$ 172,485	$ 906,799	$ —	$ 1,079,284

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The fair value of the Company's investments in certain money market funds is their face value and such instruments are classified as Level 1 and are included in cash and cash equivalents on the consolidated balance sheets. At June 30, 2021 and December 31, 2020, Level 2 securities were priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities.

As of June 30, 2021, the fair value of the 2022 Notes was $421.3 million and the fair value of the 2025 Notes was $986.0 million. The fair value was determined based on the quoted price of the 2022 and 2025 Notes in an inactive market on the last trading day of the reporting period and has been classified as Level 2 within the fair value hierarchy.

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

Restricted cash is comprised of money market funds related to landlord guarantees for leased facilities. These restricted cash balances have been excluded from our cash and cash equivalents balance on our consolidated balance sheets.

Strategic investments consist of non-controlling equity investments in privately held companies. The Company elected the measurement alternative for these investments without readily determinable fair values and for which the Company does not have the ability to exercise significant influence. These investments are accounted for under the cost method of accounting. Under the cost method of accounting, the non-marketable equity securities are carried at cost less any impairment, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer, which is recorded within the statement of operations. The Company holds $14.0 million of strategic investments without readily determinable fair values at June 30, 2021 and $6.7 million of strategic investments without readily determinable fair values at December 31, 2020. These investments are included in other assets on the consolidated balance sheets. During the three months ended June 30, 2021, an acquisition of an entity in which the Company held a strategic investment was completed, which resulted in an observable price change. The Company adjusted the fair value of its investment and recognized a gain of $1.0 million reported in the consolidated statements of operations as other income. There were no other adjustments to the carrying value of the strategic investments resulting from impairments or observable price changes in the six months ended June 30, 2021.

The following tables summarize the composition of our short- and long-term investments at June 30, 2021 and December 31, 2020.

	June 30, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
	(in thousands)			
Commercial paper	$ 201,194	$ —	$ —	$ 201,194
Corporate bonds	213,191	114	(115)	213,190
U.S. Government agency securities	6,803	—	(8)	6,795
U.S. Treasury securities	537,964	29	(15)	537,978
Total	$ 959,152	$ 143	$ (138)	$ 959,157

	December 31, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
	(in thousands)			
Commercial paper	$ 12,233	$ —	$ —	$ 12,233
Corporate bonds	115,983	427	(39)	116,371
U.S. Treasury securities	774,667	105	—	774,772
Certificates of deposit	394	—	—	394
Total	$ 903,277	$ 532	$ (39)	$ 903,770

For all of our securities for which the amortized cost basis was greater than the fair value at June 30, 2021, the Company has concluded that there is no plan to sell the security nor is it more likely than not that the Company would be required to sell the security before its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, the Company considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating and the time to maturity.

Contractual Maturities

The contractual maturities of short-term and long-term investments held at June 30, 2021 and December 31, 2020 are as follows:

	June 30, 2021		December 31, 2020	
	Amortized Cost Basis	Aggregate Fair Value	Amortized Cost Basis	Aggregate Fair Value
	(in thousands)		(in thousands)	
Due within one year	$ 875,331	$ 875,395	$ 872,637	$ 873,073
Due after 1 year through 2 years	83,821	83,762	30,640	30,697
Total	$ 959,152	$ 959,157	$ 903,277	$ 903,770

5. Equity method investment

On March 9, 2021, the Company made a contribution of $2.3 million in cash in the Black Economic Development Fund (the "Fund") managed by the Local Initiatives Support Corporation. In the three months ended June 30, 2021, the Company made an additional contribution of $0.8 million in cash for an aggregate of 5.0% ownership interest and income share in the Fund.

The Company has commitments to contribute additional capital of $9.4 million to the Fund over the next three years. Given the level of ownership interest in the Fund, which is a limited liability company, and the fact that the Fund maintains specific ownership accounts for investors, the Company accounts for this investment using the equity method of accounting. The Fund is included in other assets on the consolidated balance sheet.

The Company's share of the Fund's net earnings and impairment charges on investments are reported in the consolidated statements of operations as other income (expense), net of tax. As of June 30, 2021, the carrying amount of the Company's investment in the Fund was $3.0 million. There was no material difference between the carrying value and the fair value of the underlying net assets of the Fund that would result in adjustments to the Company's proportionate share of the Fund's net earnings.

6. Restricted cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the statement of cash flows for the three months ended June 30, 2021 and 2020.

	June 30, 2021	June 30, 2020	December 31, 2020
		(in thousands)	
Cash and cash equivalents	$ 338,336	$ 201,086	$ 378,123
Restricted cash, included in other assets	3,029	3,029	3,029
Total cash, cash equivalents, and restricted cash	$ 341,365	$ 204,115	$ 381,152

7. Property and Equipment, Net

Property and equipment, net consists of the following:

	June 30, 2021	December 31, 2020
	(in thousands)	
Computer equipment and purchased software	$ 15,940	$ 15,128
Employee related computer equipment	25,379	20,802
Furniture and fixtures	21,770	20,204
Leasehold improvements	96,369	89,850
Internal-use software	16,495	12,528
Construction in progress	420	10,014
Total property and equipment	176,373	168,526
Less accumulated depreciation	(78,488)	(67,403)
Property and equipment, net	$ 97,885	$ 101,123

Depreciation and amortization expense on property and equipment was $6.1 million for the three months ended June 30, 2021, $12.1 million for the six months ended June 30, 2021, $4.9 million for the three months ended June 30, 2020 and $9.6 million for the six months ended June 30, 2020.

8. Capitalized Software Development Costs

Capitalized software development costs, exclusive of those recorded within property and equipment, consisted of the following:

	June 30, 2021	December 31, 2020
	(in thousands)	
Gross capitalized software development costs	$ 103,231	$ 85,630
Accumulated amortization	(69,718)	(60,687)
Capitalized software development costs, net	$ 33,513	$ 24,943

These capitalized software development costs are associated with software developed for customer purchase. Capitalized software development costs recorded within property and equipment are associated with software developed for Company use.

Amortization of capitalized software development costs, exclusive of costs recorded within property and equipment, was $5.3 million for the three months ended June 30, 2021, $10.2 million for the six months ended June 30, 2021, $3.7 million for three months ended June 30, 2020, and $7.1 million for the six months ended June 30, 2020.

9. Convertible Senior Notes

2025 Convertible Senior Notes and Capped Call Options

In June 2020, the Company issued $400 million aggregate principal amount of 0.375% convertible senior notes due June 1, 2025 (the "2025 Notes") in a private offering and an additional $60 million aggregate principal amount of the 2025 Notes pursuant to the exercise in full of the over-allotment options of the initial purchasers. Each $1,000 of principal amount of the 2025 Notes will initially be convertible into 3.5396 shares of the Company's common stock (the "Conversion Option of the 2025 Notes"), which is equivalent to an initial conversion price of approximately $282.52 per share, subject to adjustment upon the occurrence of certain specified events. On or after March 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2025 Notes at any time. The 2025 Notes will be convertible at the option of the holders prior to the close of business on the business day immediately preceding March 1, 2025 under certain circumstances as described in the indenture governing the 2025 Notes (the "Indenture"). Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. The Company expects to settle the principal amount of the 2025 Notes in cash. Because the last reported sale price of the Company's common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the calendar quarter ended June 30, 2021 was equal to or greater than 130% of the applicable conversion price on each applicable trading day, the 2025 Notes are convertible at the option of the holders thereof during the calendar quarter ending September 30, 2021. As of July 30, 2021, no holders have converted or indicated their intention to convert the 2025 Notes. The 2025 Notes are classified as long-term debt.

The net carrying amount of the liability component of the 2025 Notes is as follows:

	As of June 30, 2021	As of December 31, 2020
	(in thousands)	
Principal	$ 460,000	$ 460,000
Unamortized debt discount	(79,864)	(88,756)
Unamortized issuance costs	(6,273)	(6,973)
Net carrying amount	$ 373,863	$ 364,271

The net carrying amount of the equity component of the 2025 Notes is as follows:

	As of June 30, 2021	As of December 31, 2020
	(in thousands)	
Debt discount for conversion option	$ 98,730	$ 98,730
Issuance costs	(2,120)	(2,120)
Net carrying amount	$ 96,610	$ 96,610

Interest expense related to the 2025 Notes is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)			
Contractual interest expense	$ 431	$ 125	$ 862	$ 125
Amortization of debt discount	4,510	1,218	8,901	1,218
Amortization of issuance costs	354	96	699	96
Total interest expense	$ 5,295	$ 1,439	$ 10,462	$ 1,439

In connection with the offering of the 2025 Notes, the Company purchased capped call options ("Capped Call Options") with respect to its common stock for $50.6 million. The Capped Call Options are purchased call options that give the Company the option to purchase up to approximately 1.6 million shares of its common stock for $282.52 per share, which corresponds to the approximate initial conversion price of the 2025 Notes. The Capped Call Options were purchased in order to offset potential dilution to the Company's common stock upon any conversion of the 2025 Notes, subject to a cap of $426.44 per share, and expire concurrently with the 2025 Notes. The $50.6 million paid for the Capped Call Options are recorded in stockholders' equity as a reduction in additional paid-in capital and are not accounted for as separate derivative financial instruments.

2022 Convertible Senior Notes, Convertible Note Hedge and Warrant

In May 2017, the Company issued $350 million aggregate principal amount of 0.25% convertible senior notes due June 1, 2022 in a private offering and an additional $50 million aggregate principal amount of such notes pursuant to the exercise in full of the over-allotment options of the initial purchasers (the "2022 Notes"). Each $1,000 principal amount of the 2022 Notes will initially be convertible into 10.5519 shares of the Company's common stock (the "Conversion Option of the 2022 Notes"), which is equivalent to a conversion price of approximately $94.77 per share, under certain circumstances, subject to adjustment upon the occurrence of specified events. On or after February 1, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time. The 2022 Notes are convertible at the option of the holders prior to the close of business on the business day immediately preceding February 1, 2022 under certain circumstances. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock, at the Company's election. The Company expects to settle the principal amount of the 2022 Notes in cash. Because the last reported sale price of the Company's common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the calendar quarter ended June 30, 2021 was equal to or greater than 130% of the applicable conversion price on each applicable trading day, the 2022 Notes are convertible at the option of the holders thereof during the calendar quarter ending September 30, 2021. In the second quarter of 2021, the Company settled $12.7 million of principal balance of the 2022 Notes in cash. The Company compared the consideration attributed to the fair value of the debt component with the carrying value of the debt component, which includes the proportionate amounts of unamortized debt discount and the remaining unamortized debt issuance costs and recorded a loss on early extinguishment of $0.7 million for the three months ended June 30, 2021 and $3.1 million for the six months ended June 30, 2021 within interest expense on the Company's statements of operations. As of July 30, 2021, the Company has received conversion notices for approximately $46.4 million of the principal balance of the 2022 Notes, which will be settled in cash during the quarter ended September 30, 2021.

The 2022 Notes are classified as short-term debt and the equity component of the 2022 Notes is classified as additional paid-in capital. As of June 30, 2021, $68.7 million of principal remains outstanding on the 2022 Notes.

In connection with the offering of the 2022 Notes, the Company entered into convertible note hedge transactions (the "Convertible Note Hedges") with certain counterparties in which the Company has the option to purchase (subject to adjustment for certain specified events) up to approximately 4.2 million shares of the Company's common stock at a price of approximately $94.77 per share. The Convertible Note Hedges will be settled in cash or shares, or any combination thereof, in accordance with the settlement method of the 2022 Notes in excess of the par amount, and are expected to settle concurrently with the conversion of the 2022 Notes. In addition, the Company sold warrants (the "Warrants") to certain bank counterparties whereby the holders of the Warrants have the option to initially purchase (subject to adjustment for certain specified events) a total of approximately 4.2 million shares of the Company's common stock at a price of $115.8 per share. The amount by which the settlement price exceeds the strike price may be settled in shares or cash at the Company's election. The Warrants are expected to settle three business days from each trading day commencing on September 1, 2022 and ending on the 79th trading day thereafter.

During the three months ended June 30, 2021, the Company exercised and net-share-settled a portion of the Convertible Note Hedges, corresponding to approximately $12.7 million in principal amount of 2022 Notes and received approximately 0.1 million shares of common stock and an immaterial cash payment. During the six months ended June 30, 2021, the Company exercised and net-share-settled a portion of the Convertible Note Hedges, corresponding to approximately $57.2 million in principal amount of 2022 Notes and received approximately 0.5 million shares of common stock and a $0.7 million cash payment. As of June 30, 2021, Convertible Note Hedges giving the Company the option to purchase approximately 0.9 million shares of the Company's common stock and Warrants giving certain counterparties the option to acquire up to 1.3 million shares of the Company's common stock remain outstanding.

The net carrying amount of the liability component of the 2022 Notes is as follows:

	As of June 30, 2021	As of December 31, 2020
	(in thousands)	
Principal	$ 68,653	$ 125,839
Unamortized debt discount	(3,620)	(10,397)
Unamortized issuance costs	(271)	(777)
Net carrying amount	$ 64,762	$ 114,665

The net carrying amount of the equity component of the 2022 Notes is as follows:

	As of June 30, 2021	As of December 31, 2020
	(in thousands)	
Debt discount for conversion option	$ 18,194	$ 33,349
Issuance costs	(490)	(898)
Net carrying amount	$ 17,704	$ 32,451

Interest expense related to the 2022 Notes is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
Contractual interest expense	$ 46	$ 212	$ 115	$ 462
Amortization of debt discount	1,074	4,323	2,709	9,629
Amortization of issuance costs	80	323	203	719
Total interest expense	$ 1,200	$ 4,858	$ 3,027	$ 10,810

10. Leases

The Company leases office facilities under non-cancelable operating leases that expire at various dates through May 2031. Certain operating leases contain optional termination dates, and the Company is not reasonably certain to extend its lease agreements beyond those dates.

During the six months ended June 30, 2021, the Company extended the lease term for a lease in Tokyo, Japan and amended the agreements for certain leased spaces in Dublin, Ireland. The Company recorded $3.5 million of right-of-use assets and lease liabilities associated with these amendments.

The Company uses its estimated incremental borrowing rate, which is derived from information available at the lease commencement date, in determining the present value of operating lease payments. To determine the estimated incremental borrowing rate, the Company uses publicly available credit ratings for peer companies. The Company estimates the incremental borrowing rate using yields for maturities that are in line with the duration of the lease payments. The weighted average discount rate for operating leases as of June 30, 2021 is 5.1%.

Operating lease expense costs were $11.9 million for the three months ended June 30, 2021, $24.0 million for the six months ended June 30, 2021, $11.2 million for the three months ended June 30, 2020, and $20.9 million for the six months ended June 30, 2020.

The Company subleases some of its unused spaces to third parties. Operating sublease income generated under all operating lease agreements for the three and six months ended June 30, 2021 and 2020 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
Operating sublease income	$ 1,247	$ 1,374	$ 2,506	$ 2,728

Cash payments related to operating lease liabilities were $14.0 million for the three months ended June 30, 2021, $26.1 million for the six months ended June 30, 2021, $11.3 million for the three months ended June 30, 2020, and $20.9 million for the six months ended June 30, 2020.

11. Commitments and Contingencies

Contractual Obligations

The Company leases its office facilities under non-cancelable operating leases that expire at various dates through May 2031. Lease expense for non-cancelable operating leases with free rental periods or scheduled rent increases is recognized on a straight-line basis over the terms of the leases. Improvement reimbursements from landlords of $24.4 million are being amortized on a straight-line basis into lease expense over the terms of the leases. Certain leases contain optional termination dates. The table below only includes payments up to the optional termination date. If the Company were to extend leases beyond the optional termination date, the future commitments would increase by approximately $87.9 million.

Included in the table below is an operating lease commitment for a lease that has not yet commenced of approximately $6.5 million for facilities with lease terms of approximately 7 years in Colombia.

Future minimum payments under all operating lease agreements as of June 30, 2021 are as follows:

		Operating (in thousands)
Remainder of 2021	$	20,286
2022		51,445
2023		50,396
2024		49,217
2025		49,286
Thereafter		138,887
Total	$	359,517

In July 2021, the Company entered into various agreements for office facilities in Cambridge, Massachusetts, to extend the lease term of certain facilities and to terminate the lease for certain facilities. As a result of these agreements, the Company will pay an aggregate of approximately $148 million in incremental rent over the lease term. In connection with the termination of the existing lease, during the third quarter of 2021, the Company will record a gain on lease extinguishment of approximately $4 million and an acceleration of furniture, fixture, and leasehold improvement depreciation expense of approximately $7 million.

As of June 30, 2021, there were no material changes in our vendor commitments under non-cancelable arrangements, as disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2020 and related notes thereto contained in the Company's Annual Report on Form 10-K, except as noted below.

During the six months ended June 30, 2021, the Company entered various vendor commitments with contractual obligations of approximately $5.3 million, payable over the two to three year term of the agreements.

Legal Contingencies

From time to time, the Company may become a party to litigation and subject to claims incident to the ordinary course of business, including intellectual property claims, labor and employment claims, and threatened claims, breach of contract claims, tax, and other matters. The Company currently has no material pending litigation.

12. Business Acquisition

On February 9, 2021, the Company acquired 100% of the equity interests of Hustle Con Media, Inc. (the "Hustle"), a media company that produces a newsletter, podcast, and premium research content for innovative professionals. The Hustle will enable the Company to better meet the needs of scaling companies by delivering educational, business and technology trend content in their preferred formats. The total cash purchase price for the acquisition was $17.2 million, net of cash acquired, which included a upward working capital adjustment of $0.4 million.

The following table summarizes the fair value of assets acquired and liabilities assumed as of the date of acquisition:

		Fair value (in thousands)
Cash	$	3,089
Accounts receivable		1,153
Other current and noncurrent assets		835
Current backlog asset		677
Customer relationships		2,400
Goodwill		16,987
Accounts payable, accrued expenses, and other liabilities		(2,975)
Deferred revenue		(825)
Deferred tax liability		(1,042)
Total purchase price	$	20,299

As part of the purchase price allocation, the Company recorded a net deferred tax liability for approximately $1.0 million related to the difference between the tax basis and fair value of the acquired intangible assets. This net deferred tax liability provided a source of additional income to support the realizability of the Company's pre-existing, U.S. deferred tax assets. As the Company has recorded a full valuation allowance against its U.S. deferred tax assets, the Company released a portion of its valuation allowance and recorded a corresponding income tax benefit of $1.0 million in the consolidated statement of operations for the period ended March 31, 2021.

The excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets and liabilities acquired was recorded as goodwill. The Company believes the goodwill is attributable to the significant value obtained from the Company utilizing the advertising space within the Hustle's newsletter and podcast, as well as the market influence of the premium research content to promote its products to the Hustle's customer base and acquire new customers. The goodwill recognized is not deductible for U.S. or foreign income tax purposes.

The Company applied an income approach to estimate the fair values of the intangible assets acquired. The primary intangible asset acquired in the business acquisition was customer relationships and the fair value of $2.4 million was determined based on the estimated present value of expected after-tax cash flows attributable to subscribers using an excess earnings method. The Company applied various estimates and assumptions with respect to forecasted revenue growth rates, the revenue attributable to the existing customers over time and the discount rate. The fair values assigned to the other tangible and identifiable intangible assets acquired and liabilities assumed as part of the business combination were based on management's estimates and assumptions.

The Company began amortizing the customer relationships on the date of acquisition over a period of seven years based on expected future cash flow attributable to existing customers. The amortization expense is recorded to sales and marketing expense in the consolidated statements of operations.

The Company has included the operating results of the Hustle in its consolidated financial statements since the date of the acquisition. The acquisition did not have a material effect on the revenue or earnings in the consolidated income statement for the reporting periods presented. The pro forma results of the Company as if the acquisition had taken place on the first day of 2020 were not materially different from the amounts reflected in the accompanying consolidated financial statements.

13. Changes in Stockholders' Equity

The following tables summarize the changes in stockholders' equity for the six months ended June 30, 2021 and 2020.

	Common Stock, $0.001 Par Value		Treasury Stock, $0.001 Par Value		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	
	Shares	$	Shares	$	Capital	Income	Deficit	Total
Balances at December 31, 2020	46,115	$ 46	12	$ —	$ 1,241,167	$ 4,603	$ (483,161)	762,655
Issuance of common stock under stock plans, net of shares withheld for employee taxes	482	1	—	—	6,582	—	—	6,583
Stock-based compensation	—	—	—	—	32,947		—	32,947
Equity component of the 2022 Notes conversions	363	—	—	—	(2,307)	—	—	(2,307)
Settlement of Convertible Note Hedges	(364)	—	364	—	724	—	—	724
Cumulative translation adjustment	—	—	—	—	—	(2,489)	—	(2,489)
Unrealized loss on investments, net of income taxes of ($36)	—	—	—	—	—	(240)	—	(240)
Net loss	—	—	—	—	—	—	(23,159)	(23,159)
Balances at March 31, 2021	46,596	$ 47	376	$ —	$ 1,279,113	$ 1,874	$ (506,320)	$ 774,714
Issuance of common stock under stock plans, net of shares withheld for employee taxes	264	—	—	—	10,677	—	—	10,677
Equity component of the 2022 Notes conversions	108	—	—	—	(148)	—	—	(148)
Settlement of Convertible Note Hedges	(109)	—	109	—	—	—	—	—
Stock-based compensation	—	—	—	—	44,659	—	—	44,659
Cumulative translation adjustment	—	—	—	—	—	534	—	534
Unrealized loss on investments, net of income taxes of ($7)	—	—	—	—	—	(180)	—	(180)
Net loss	—	—	—	—	—	—	(24,572)	(24,572)
Balances at June 30, 2021	46,859	$ 47	485	$ —	$ 1,334,301	$ 2,228	$ (530,892)	$ 805,684

	Common Stock, $0.001 Par Value Shares	$	Additional Paid-In Capital	Accumulated Other Comprehensive (Loss)	Accumulated Deficit	Total
Balances at December 31, 2019	42,955	$ 44	$ 1,048,380	$ (336)	$ (398,130)	649,958
Issuance of common stock under stock plans, net of shares withheld for employee taxes	411	—	1,320	—	—	1,320
Stock-based compensation	—	—	27,905		—	27,905
Cumulative translation adjustment	—	—	—	(1,077)	—	(1,077)
Unrealized gain on investments, net of income taxes of $0	—	—	—	583	—	583
Net loss	—	—	—	—	(17,716)	(17,716)
Balances at March 31, 2020	43,366	$ 44	$ 1,077,605	$ (830)	$ (415,846)	$ 660,973
Issuance of common stock under stock plans, net of shares withheld for employee taxes	425	—	11,701	—	—	11,701
Equity component of 2025 Notes, net of issuance costs	—	—	96,610	—	—	96,610
Purchase of Capped Call Options	—	—	(50,600)	—	—	(50,600)
Equity component of the repayment of 2022 Notes	1,595	2	611	—	—	613
Stock-based compensation	—	—	31,864	—	—	31,864
Cumulative translation adjustment	—	—	—	1,159	—	1,159
Unrealized gain on investments, net of income taxes of ($76)	—	—	—	132	—	132
Net loss	—	—	—	—	(29,401)	(29,401)
Balances at June 30, 2020	45,386	$ 46	$ 1,167,791	$ 461	$ (445,247)	$ 723,051

14. Changes in Accumulated Other Comprehensive Loss

The following table summarizes the changes in accumulated other comprehensive loss, which is reported as a component of stockholders' equity, for the six months ended June 30, 2021.

	Cumulative Translation Adjustment	Unrealized Gain on Investments	Total
		(in thousands)	
Beginning balance at January 1, 2021	4,180	423	4,603
Other comprehensive loss before reclassifications	(1,955)	(420)	(2,375)
Amounts reclassified from accumulated other comprehensive income	—	—	—
Ending balance at June 30, 2021	2,225	3	2,228

15. Stock-Based Compensation Expense

The following two tables show stock-based compensation expense by award type and where the stock-based compensation expense is recorded in the Company's consolidated statements of operations:

	Three Months End June 30, 2021	Three Months End June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(in thousands)		(in thousands)	
Options	$ 1,572	$ 1,586	$ 3,166	$ 3,408
RSUs	39,692	28,490	68,432	52,793
Employee stock purchase plan	2,169	1,298	4,258	2,636
Total stock-based compensation expense	$ 43,433	$ 31,374	$ 75,856	$ 58,837

Effect of stock-based compensation expense on income by line item:

	Three Months End June 30, 2021	Three Months End June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(in thousands)		(in thousands)	
Cost of revenue, subscription	$ 1,582	$ 1,075	$ 2,892	$ 1,974
Cost of revenue, professional services and other	826	628	1,523	1,234
Research and development	15,080	10,111	26,565	18,819
Sales and marketing	18,971	12,868	32,600	23,684
General and administrative	6,974	6,692	12,276	13,126
Total stock-based compensation expense	$ 43,433	$ 31,374	$ 75,856	$ 58,837

Capitalized software development costs excluded from stock-based compensation expense is $1.9 million for the three months ended June 30, 2021, $3.1 million for the six months ended June 30, 2021, $1.0 million for the three months ended June 30, 2020 and $1.8 million for the six months ended June 30, 2020.

16. Segment Information and Geographic Data

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 maker ("CODM"), which is the Company's chief executive officer, in deciding how to allocate resources and assess performance. The Company's CODM evaluates 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. Revenue and long-lived assets by geographic region, based on the physical location of the operations recording the sale or the asset, are as follows:

Revenues by geographical region:

	Three Months End June 30, 2021	Three Months End June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
	(in thousands)			
Americas	$ 190,728	$ 133,719	$ 364,599	$ 264,858
Europe	93,365	54,558	176,735	107,229
Asia Pacific	26,695	15,331	50,819	30,488
Total	$ 310,788	$ 203,608	$ 592,153	$ 402,575
Percentage of revenues generated outside of the Americas	39 %	34 %	38 %	34 %

Revenue derived from customers outside the United States (international) was approximately 46% of total revenue in the three and six months ended June and 42% of total revenue in the three and six months ended June 30, 2020.

Total long-lived assets by geographical region:

	As of June 30, 2021	As of December 31, 2020
	(in thousands)	
Americas	$ 195,409	$ 206,789
Europe	150,072	159,338
Asia Pacific	9,727	10,889
Total long-lived assets	$ 355,208	$ 377,016
Percentage of long-lived assets held outside of the Americas	45 %	45 %

tem 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the SEC on February 16, 2021. 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 II, Item 1A below.

Company Overview

We provide a cloud-based customer relationship management (“CRM”) Platform. Our CRM Platform is comprised of Marketing Hub, Sales Hub, Service Hub, CMS Hub, and Operations Hub (released in April 2021) as well as other tools and integrations that enable companies to attract, engage, and delight customers throughout the customer experience.

At the core of our CRM Platform is our CRM that our customers use which creates a single view of all interactions a prospective or existing customer has with their marketing, sales and customer service teams. The CRM shares data across every application in the CRM Platform, automatically informing more personalized emails, website content, ads, and conversations, and enables more accurate timing cues for our customer’s internal teams. In addition, the CRM Platform was built to easily and seamlessly integrate third party applications to further customize to an individual company’s industry or needs. We designed and built our CRM Platform to serve a broad range of customers globally. Our CRM Platform starts completely free and grows with our customers to meet their needs at different stages in their life-cycles. It supports multiple languages and currencies and offers an array of sophisticated features, including content partitioning at the enterprise level for companies operating in or serving multiple countries.

We focus on selling to mid-market business-to-business, or B2B, companies, which we define as companies that have between two and 2,000 employees. While our CRM Platform was built to grow with any company, we focus on selling to mid-market businesses because we believe we have significant competitive advantages attracting and serving this market segment. 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, sales, and customer service budgets. We efficiently reach these businesses at scale through our proven inbound methodology, our Solutions Partners, and our “freemium” model. A Solutions Partner is a service provider that helps businesses with strategy, execution, and implementation of go-to-market activities and technology solutions. Our freemium model attracts customers who begin using our CRM Platform through our free products and then upgrade to our paid products. As of June 30, 2021, we had 4,981 full-time employees and 121,048 Total Customers of varying sizes in more than 120 countries, representing almost every industry.

We derive most of our revenue from subscriptions to our cloud-based CRM Platform and related professional services, which consist of customer on-boarding and training services. Subscription revenue accounted for 97% of our total revenue for the three months ended June 30, 2021, 96% of our total revenue for the six months ended June 30, 2021, and 96% of our total revenue for both the three and six months ended June 30, 2020. We sell multiple product plans at different base prices on a subscription basis, each of which includes our CRM 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 also generate additional revenue based on the purchase of additional subscriptions and products, and the number of account users and subdomains. Most of our customers’ subscriptions are one year or less in duration.

Subscriptions 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.

Many 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 CRM Platform. Professional services and other revenue accounted for 3% of total revenue for the three months ended June 30, 2021, 4% of our total revenue for the six months ended June 30, 2021, and 4% of our total revenue for both the three and six months ended June 30, 2020. We expect professional services and other margins to range from a moderate loss to breakeven for the foreseeable future.

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 CRM Platform by existing and new customers, significant competition from other providers of marketing, sales, customer service, and content management 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 CRM Platform within existing customers, develop new products and applications to extend the functionality of our CRM 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 CRM 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 convertible debt and prior stock offerings to fund these growth strategies and support our business and do not expect to be profitable in the near term.

COVID-19 Update

In March 2020, the World Health Organization, or WHO, declared the outbreak of a disease caused by a novel strain of the coronavirus ("COVID-19") to be a pandemic (the "pandemic"). This pandemic has had widespread, rapidly-evolving, and unpredictable impacts on global societies, economies, financial markets, and business practices. Federal and state governments have implemented measures in an effort to contain the virus, including physical distancing, travel bans and restrictions, closure of non-essential businesses, quarantines, work-from-home directives, shelter-in-place orders, and limitations on public gatherings. These measurements have caused, and are continuing to cause, business slowdowns or shutdowns in affected areas, both regionally and worldwide.

Our focus remains on promoting employee health and safety, serving our customers, and ensuring business continuity. As we continue to reassess local restrictions across the globe and the administration of vaccine programs ramps up and cases decline, we are moving towards slowly re-opening some our offices on a staggered, region-to-region basis in accordance with local authority guidelines while ensuring that our return to work is thoughtful, prudent, and handled with an abundance of caution with the health of our employees being the top priority.

While the pandemic has not had a material adverse financial impact on our business to date, the broader implications of the pandemic on our results of operations and overall financial performance will depend on future developments and conditions. See the section titled "Risk Factors" included under Part II, Item 1A below for further discussion of the possible impact of the pandemic on our business.

Results of Operations for the Three and Six Months Ended June 30, 2021 and 2020

The following tables set forth our results of operations for the periods presented and as a percentage of our total revenue for those periods. The data has been derived from the unaudited consolidated financial statements contained in this Quarterly Report on Form 10-Q which include, in our opinion, all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair statement of the financial position and results of operations for the interim periods presented. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues:				
Subscription	$ 300,423	$ 196,415	$ 570,686	$ 387,643
Professional services and other	10,365	7,193	21,467	14,932
Total revenue	310,788	203,608	592,153	402,575
Cost of revenues:				
Subscription	51,134	30,400	94,986	60,135
Professional services and other	11,743	8,377	22,625	16,926
Total cost of revenues	62,877	38,777	117,611	77,061
Gross profit	247,911	164,831	474,542	325,514
Operating expenses:				
Research and development	72,104	49,372	140,500	95,573
Sales and marketing	157,799	102,600	298,817	204,928
General and administrative	34,610	26,484	66,860	52,741
Total operating expenses	264,513	178,456	506,177	353,242
Loss from operations	(16,602)	(13,625)	(31,635)	(27,728)
Other expense:				
Interest income	341	2,135	816	6,192
Interest expense	(7,179)	(16,809)	(16,578)	(22,761)
Other income (expense)	528	(91)	1,188	(1,143)
Total other expense	(6,310)	(14,765)	(14,574)	(17,712)
Loss before income tax expense	(22,912)	(28,390)	(46,209)	(45,440)
Income tax expense	(1,660)	(1,011)	(1,522)	(1,677)
Net loss	$ (24,572)	$ (29,401)	$ (47,731)	$ (47,117)
Net loss per share, basic and diluted	$ (0.53)	$ (0.67)	$ (1.02)	$ (1.08)
Weighted average common shares used in computing basic and diluted net loss per share:	46,777	44,130	46,603	43,703

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue:				
Subscription	97%	96%	96%	96%
Professional services and other	3	4	4	4
Total revenue	100	100	100	100
Cost of revenue:				
Subscription	16	15	16	15
Professional services and other	4	4	4	4
Total cost of revenue	20	19	20	19
Gross profit	80	81	80	81
Operating expenses:				
Research and development	23	24	24	24
Sales and marketing	51	50	50	51
General and administrative	11	13	11	13
Total operating expenses	85	88	85	88
Loss from operations	(5)	(7)	(5)	(7)
Total other expense	(2)	(7)	(2)	(4)
Loss before income tax expense	(7)	(14)	(8)	(11)
Income tax expense	(1)	(0)	(0)	(0)
Net loss	(8)%	(14)%	(8)%	(12)%

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

Three and Six Months Ended June 30, 2021 Compared to the Three and Six Months Ended June 30, 2020

Revenue

(dollars in thousands)	Three Months Ended June 30, 2021	2020	$ Change	% Change	Six Months Ended June 30, 2021	2020	$ Change	% Change
Revenues:								
Subscription	$ 300,423	$ 196,415	$ 104,008	53 %	$ 570,686	$ 387,643	$ 183,043	47 %
Professional services and other	10,365	7,193	3,172	44 %	21,467	14,932	6,535	44 %
Total revenue	$ 310,788	$ 203,608	$ 107,180	53 %	$ 592,153	$ 402,575	$ 189,578	47 %

Three month change

Subscription revenue increased during the three months ended June 30, 2021 compared to the same period in 2020 primarily due to the increase in Total Customers, which grew from 86,672 as of June 30, 2020 to 121,048 as of June 30, 2021. Total Average Subscription Revenue per Customer increased from $9,466 for the three months ended June 30, 2020 to $10,198 for the three months ended June 30, 2021. The growth in Total Customers was primarily driven by our increased sales representative capacity to meet market demand as well as an increase in demand primarily for our Professional and Enterprise products. The increase in average subscription revenue per customer was primarily driven by an increase in demand for our Professional and Enterprise products, product upgrades by existing customers and impact from customer mix.

Professional services and other revenue increased during the three months ended June 30, 2021 compared to the same period in 2020 resulted primarily from the increase in Total Customers and from the delivery of on-boarding and training services for the additional subscriptions sold, as well as fees earned on revenue share arrangements with third parties.

Six month change

Subscription revenue increased during the six months ended June 30, 2021 compared to the same period in 2020 primarily due to the increase in Total Customers, which grew from 86,672 as of June 30, 2020 to 121,048 as of June 30, 2021. Total Average Subscription Revenue per Customer increased from $9,651 for the six months ended June 30, 2020 to $10,111 for the six months ended June 30, 2021.The growth in Total Customers was primarily driven by our increased sales representative capacity to meet market demand as well as an increase in demand primarily for our Professional and Enterprise products. The increase in average subscription revenue per customer was primarily driven by an increase in demand for our Professional and Enterprise products, product upgrades by existing customers and impact from customer mix.

Professional services and other revenue increased during the six months ended June 30, 2021 compared to the same period in 2020 resulted primarily from the increase in Total Customers and from the delivery of on-boarding and training services for the additional subscriptions sold, as well as additional advertising revenue generated from our acquisition of the Hustle, which is not expected to recur, and fees earned on revenue share arrangements with third parties.

Cost of Revenue, Gross Profit and Gross Margin Percentage

(dollars in thousands)	Three Months Ended June 30, 2021	2020	$ Change	% Change	Six Months Ended June 30, 2021	2020	$ Change	% Change
Total cost of revenue	$ 62,877	$ 38,777	$ 24,100	62 %	$ 117,611	$ 77,061	$ 40,550	53 %
Gross profit	$ 247,911	$ 164,831	$ 83,080	50 %	$ 474,542	$ 325,514	$ 149,028	46 %
Gross margin percentage	80 %	81 %			80 %	81 %		

Total cost of revenue for the three and six months ended June 30, 2021 increased compared to the same period in 2020 primarily due to an increase in subscription and hosting costs, employee-related costs, amortization of capitalized software development costs, allocated overhead expenses, offset by a decrease in amortization of acquired technology due to certain acquired technology reaching the end of its useful life during the third quarter of 2020. Gross margins remained consistent year-over-year.

(dollars in thousands)	Three Months Ended June 30, 2021	2020	$ Change	% Change	Six Months Ended June 30, 2021	2020	$ Change	% Change
Subscription cost of revenue	$ 51,134	$ 30,400	$ 20,734	68 %	$ 94,986	$ 60,135	$ 34,851	58 %
Percentage of subscription revenue	17 %	15 %			17 %	16 %		

The increase in subscription cost of revenue for the three and six months ended June 30, 2021 compared to the same period in 2020 was primarily due to the following:

	Change	
	Three Months (in thousands)	Six Months (in thousands)
Subscription and hosting costs	$ 15,015	$ 24,918
Employee-related costs	4,168	7,265
Amortization of capitalized software development costs	1,752	3,221
Allocated overhead expenses	441	732
Amortization of acquired technology	(642)	(1,285)
	$ 20,734	$ 34,851

Three month change

Subscription and hosting costs increased primarily due to growth in our Total Customer base from 86,672 as of June 30, 2020 to 121,048 as of June 30, 2021. Additionally, we saw higher subscription and hosting costs as we focus on the security, reliability and performance of our CRM Platform. 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 the expansion of our leased space and infrastructure as we continued to grow our business and expand headcount. Amortization of acquired technology decreased due to certain acquired technology reaching the end of its useful life during the third quarter of 2020.

Six month change

Subscription and hosting costs increased primarily due to growth in our Total Customer base from 86,672 as of June 30, 2020 to 121,048 as of June 30, 2021. Additionally, we saw higher subscription and hosting costs as we focus on the security, reliability and performance of our CRM Platform. 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 the expansion of our leased space and infrastructure as we continued to grow our business and expand headcount. Amortization of acquired technology decreased due to certain acquired technology reaching the end of its useful life during the third quarter of 2020.

	Three Months Ended June 30,				Six Months Ended June 30,			
(dollars in thousands)	2021	2020	$ Change	% Change	2021	2020	$ Change	% Change
Professional services and other cost of revenue	$ 11,743	$ 8,377	$ 3,366	40 %	$ 22,625	$ 16,926	$ 5,699	34 %
Percentage of professional services and other revenue	113 %	116 %			105 %	113 %		

The increase in professional services and other cost of revenue for three and six months ended June 30, 2021 compared to the same period in 2020 was primarily due to the following:

	Change	
	Three Months (in thousands)	Six Months (in thousands)
Employee-related costs	$ 2,464	$ 4,550
Allocated overhead expenses	902	1,149
	$ 3,366	$ 5,699

Three month change

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 the expansion of our leased space and infrastructure as we continued to grow our business and expand headcount.

Six month change

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 the expansion of our leased space and infrastructure as we continued to grow our business and expand headcount.

Research and Development

	Three Months Ended June 30,				Six Months Ended June 30,			
(dollars in thousands)	**2021**	**2020**	**$ Change**	**% Change**	**2021**	**2020**	**$ Change**	**% Change**
Research and development	$ 72,104	$ 49,372	$ 22,732	46 %	$ 140,500	$ 95,573	$ 44,927	47 %
Percentage of total revenue	23 %	24 %			24 %	24 %		

The increase in research and development expense for the three and six months ended June 30, 2021 compared to the same period in 2020 was primarily due to the following:

	Change	
	Three Months (in thousands)	**Six Months (in thousands)**
Employee-related costs	$ 18,290	$ 35,728
Allocated overhead expenses	2,563	4,808
Hosting expenses	1,879	4,391
	$ 22,732	$ 44,927

Three month change

Employee-related costs increased as a result of increased headcount as we continue to grow our engineering organization to develop new products, increase functionality and to maintain our existing CRM Platform. Hosting expense increased due to incremental spend associated with product development infrastructure that is unrelated to the hosting of our CRM Platform for paying customers. Allocated overhead expense increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount.

Six month change

Employee-related costs increased as a result of increased headcount as we continue to grow our engineering organization to develop new products, increase functionality and to maintain our existing CRM Platform. Hosting expense increased due to incremental spend associated with product development infrastructure that is unrelated to the hosting of our CRM Platform for paying customers. 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

	Three Months Ended June 30,				Six Months Ended June 30,			
(dollars in thousands)	**2021**	**2020**	**$ Change**	**% Change**	**2021**	**2020**	**$ Change**	**% Change**
Sales and marketing	$ 157,799	$ 102,600	$ 55,199	54 %	$ 298,817	$ 204,928	$ 93,889	46 %
Percentage of total revenue	51 %	50 %			50 %	51 %		

The increase in sales and marketing expense for the three and six months ended June 30, 2021 compared to the same period in 2020 was primarily due to the following:

	Change	
	Three Months (in thousands)	Six Months (in thousands)
Employee-related costs	$ 33,715	$ 55,431
Marketing programs	10,102	18,650
Solutions Partner commissions	7,042	11,371
Allocated overhead expenses	4,258	8,269
Amortization of acquired intangible asset	82	168
	$ 55,199	$ 93,889

Three month change

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. Marketing programs increased due to the timing and size of certain marketing efforts as we continue to make investments in attracting new customers. Solutions Partner commissions increased as a result of increased revenue generated through our partners. Allocated overhead expenses increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount. Amortization of acquired intangible assets increased due to the amortization of customer relationships associated with our acquisition of the Hustle in the first quarter of 2021.

Six month change

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. Marketing programs increased due to the timing and size of certain marketing efforts as we continue to make investments in attracting new customers. Solutions Partner commissions increased as a result of increased revenue generated through our partners. Allocated overhead expenses increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount. Amortization of acquired intangible assets increased due to the amortization of customer relationships associated with our acquisition of the Hustle in the first quarter of 2021.

General and Administrative

	Three Months Ended June 30,				Six Months Ended June 30,			
(dollars in thousands)	2021	2020	$ Change	% Change	2021	2020	$ Change	% Change
General and administrative	$ 34,610	$ 26,484	$ 8,126	31%	$ 66,860	$ 52,741	$ 14,119	27%
Percentage of total revenue	11%	13%			11%	13%		

The increase in general and administrative expense for the three and six months ended June 30, 2021 compared to the same period in 2020 was primarily due to the following:

	Change	
	Three Months (in thousands)	Six Months (in thousands)
Employee-related costs	$ 5,042	$ 6,913
Allocated overhead expenses	1,251	3,984
Customer credit card fees	1,833	3,222
	$ 8,126	$ 14,119

Three month change

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. 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.

Six month change

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. 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

(dollars in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	$ Change	% Change	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	$ Change	% Change
Interest income	$ 341	$ 2,135	$ (1,794)	(84)%	$ 816	$ 6,192	$ (5,376)	(87)%
Percentage of total revenue	*	1%			0%	2%		
Interest expense	$ (7,179)	$ (16,809)	$ 9,630	(57)%	$ (16,578)	$ (22,761)	$ 6,183	(27)%
Percentage of total revenue	(2)%	(8)%			(3)%	(6)%		
Other income (expense)	$ 528	$ (91)	$ 619	680%	$ 1,188	$ (1,143)	$ 2,331	204%
Percentage of total revenue	*	*			*	*		

* not meaningful

Interest income primarily consists of interest earned on invested cash and cash equivalents balances and investments. The decrease during the three and six months ended June 30, 2021 is due to a decrease in yields on our investment balances.

Interest expense primarily consists of amortization of the debt discount and issuance costs and contractual interest expense related to our Notes, and the loss on early extinguishment of our 2022 Notes. The decrease during the three and six months ended June 30, 2021 is primarily due to the loss on the early extinguishment of our 2022 Notes of $10.5 million recorded in the three and six months ended June 30, 2020, offset by the amortization of the debt discount and issuance costs related to the 2025 Notes.

Other income (expense) primarily consists of the impact of foreign currency transaction gains and losses associated with monetary assets and liabilities, and any gains or losses on our strategic investments. The increase in other income during the three and six months ended June 30, 2021 were primarily due to exchange rate fluctuations and a gain recorded on our strategic investments (Note 4).

Income tax expense

(dollars in thousands)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	$ Change	% Change	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	$ Change	% Change
Income tax expense	$ (1,660)	$ (1,011)	$ (649)	64%	$ (1,522)	$ (1,677)	$ 155	(9)%
Effective tax rate	7%	4%			3%	4%		

Income tax expense consists of current and deferred taxes for U.S. and foreign income taxes. The increase in the income tax expense in the three months ended June 30, 2021 compared to the same period in 2020 was primarily driven by increased income in jurisdictions outside of the United States that are profitable from a tax perspective. The decrease in the six months ended June 30, 2021 compared to the same period in 2020 was primarily driven by a non-recurring income tax benefit relating to the release of a portion of the Company's valuation allowance, offset by increased income in jurisdictions outside of the United States that are profitable from a tax perspective. The release was due to recording net deferred tax liabilities related to the Hustle acquisition, which are a source of income to support the realizability of the Company's pre-existing U.S. deferred tax assets.

Liquidity and Capital Resources

Our principal sources of liquidity to date have been cash and cash equivalents, net accounts receivable, our common stock offerings, and our convertible notes offerings.

The following table shows cash and cash equivalents, working capital, net cash and cash equivalents provided by operating activities, net cash and cash equivalents used in investing activities, and net cash and cash equivalents provided by financing activities for the six months ended June 30, 2021 and 2020.

	Six Months ended June 30,	
	2021	2020
	(in thousands)	
Cash and cash equivalents	$ 338,336	$ 201,086
Working capital	862,418	962,873
Net cash and cash equivalents provided by (used in) operating activities	100,891	(10,679)
Net cash and cash equivalents used in investing activities	(110,740)	(277,154)
Net cash and cash equivalents (used in) provided by financing activities	(26,729)	213,577

Our cash and cash equivalents at June 30, 2021 were held for working capital purposes. At June 30, 2021, $113.0 million of our cash and cash equivalents was held in accounts outside the United States. As of December 31, 2018, we no longer assert indefinite reinvestment of our foreign earnings because these earnings have been subject to United States Federal tax. While we have concluded that any incremental tax incurred upon ultimate distribution of these earnings to be immaterial, our current plans do not demonstrate a need to repatriate undistributed earnings to fund our U.S. operations.

Cash from operations could be affected by various risks and uncertainties, including, but not limited to, the effects of the pandemic and other risks detailed in the section titled “Risk Factors” included under Part II, Item 1A. However, based on our current business plan and revenue prospects, we believe that our existing cash, cash equivalents and investment balances, and our anticipated cash flows from operations will be sufficient to meet our working capital and operating resource expenditure requirements for the next twelve months.

Net Cash and Cash Equivalents Provided by Operating Activities

Net cash and cash equivalents provided by 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 six months ended June 30, 2021 primarily reflected our net loss of $47.7 million, the portion of the repayment of the 2022 Notes attributable to the debt discount of $13.0 million, benefit from deferred income taxes of $1.1 million, and a gain on strategic investments of $1.0 million, offset by non-cash expenses that included $21.7 million of depreciation and amortization, $75.9 million in stock-based compensation, $1.7 million amortization of bond discounts, $12.5 million of amortization of debt discount and issuance costs, and $3.1 million of loss on early extinguishment of 2022 Notes. Working capital sources of cash and cash equivalents primarily included a $49.4 million increase in deferred revenue primarily resulting from the growth in the number of customers invoiced during the period, a $8.9 million decrease in accounts receivable related to increased collection, a $18.5 million increase in right-of-use asset, and $15.5 million increase in accrued expenses and other liabilities. These sources of cash and cash equivalents were offset by a $1.3 million increase in accounts payable related to timing of bill payments, a $7.7 million increase in prepaid expenses and other assets, a $18.4 million decrease in operating lease liabilities, and a $16.4 million increase in deferred commissions.

Net cash and cash equivalents provided by operating activities during the six months ended June 30, 2020, primarily reflected our net loss of $47.1 million, the portion of the repayment of the 2022 Notes attributable to the debt discount of $48.7 million and accretion of bond discounts of $3.5 million offset by non-cash expenses that included $17.7 million of depreciation and amortization, $58.8 million in stock-based compensation, $10.5 million of loss on early extinguishment of 2022 Notes and $11.7 million of amortization of debt discount and issuance costs. Working capital sources of cash and cash equivalents included a $7.1 million increase in deferred revenue primarily resulting from the growth in the number of customers invoiced during the period, a $5.9 million decrease in accounts receivable related to increased collection, a $1.8 million increase in accounts payable related to timing of bill payments, a $13.4 million increase in right-of-use asset, and a $0.4 million increase in accrued expenses and other liabilities. These sources of cash and cash equivalents were offset by a $20.4 million increase in prepaid expenses and other assets, a $12.3 million decrease in operating lease liabilities, and a $5.8 million increase in deferred commissions.

Net Cash and Cash Equivalents Used in Investing Activities

Our investing activities have consisted primarily of purchases, maturities and sale of investments, property and equipment purchases, an acquisition of a business, purchases of strategic investments, an equity method investment and capitalization of software development costs. Capitalized software development costs are related to new products or improvements to our existing software platform that expands the functionality for our customers.

Net cash and cash equivalents used in investing activities during the six months ended June 30, 2021 consisted primarily of $654.1 million purchases of investments, $10.7 million of purchased property and equipment, a $16.8 million business acquisition, $6.2 million of purchases of strategic investments, $3.1 million in an equity method investment and $16.4 million of capitalized software development costs. These uses of cash were offset by $596.6 million received related to the maturity of investments.

Net cash and cash equivalents used in investing activities during the six months ended June 30, 2020 consisted primarily of $967.0 million purchases of investments, $19.9 million of purchased property and equipment, $1.0 million of purchases of strategic investments, and $10.2 million of capitalized software development costs. These uses of cash were offset by $710.0 million received related to the maturity of investments and $10.9 million received for sale of investments.

Net Cash and Cash Equivalents Provided by Financing Activities

Our financing activities have consisted primarily of the various components of our 2022 Notes repayment, the various components of our 2025 Notes offering, the issuance of common stock under our stock plans, payments of employee taxes related to the net share settlement of stock-based awards, and repayments of our finance lease obligations.

For the six months ended June 30, 2021 cash used in financing activities consisted of $45.4 million used for repayment of the 2022 Notes attributable to the principal and $6.9 million used for payment of employee taxes related to the net share settlement of stock-based awards, offset by $0.7 million of proceeds from the settlement of the Convertible Note Hedges related to the 2022 Notes and $24.9 million of proceeds related to issuance of common stock under stock plans.

For the six months ended June 30, 2020 cash provided by financing activities consisted of $450.6 million of net proceeds from the issuance of the 2025 Notes, $362.5 million of proceeds from the settlement of the Convertible Note Hedges related to the 2022 Notes, and $15.2 million of proceeds related to issuance of common stock under stock plans. This source of cash was offset by $234.4 million used for repayment of the 2022 Notes attributable to the principal, $327.5 million for payment to settle the Warrants related to the 2022 Notes, $50.6 million for payment of the Capped Call Options related to the 2025 Notes, and $2.2 million used for payment of employee taxes related to the net share settlement of stock-based awards.

Critical Accounting Policies and Estimates

There have been no significant changes in our critical accounting policies and estimates during the six months ended June 30, 2021 as compared to the critical accounting policies and estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2020.

Contractual Obligations and Commitments

As of June 30, 2021, there were no material changes in our contractual obligations and commitments from those disclosed in the Annual Report on Form 10-K filed with the SEC on February 16, 2021, other than those in the notes to the consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.

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 Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

As of June 30, 2021, we are committed to contribute additional capital of $9.4 million to the Black Economic Development Fund (Note 5). There were no other material off-balance sheet arrangements exclusive of operating leases 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.

tem 3. Quantitative and Qualitative 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, Japanese Yen, and Colombian Peso. Since we translate foreign currencies into U.S. dollars for financial reporting purposes, currency fluctuations can have an impact on our financial results.

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.

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.

Market Risk and Market Interest Risk

In May 2017, we issued $400.0 million aggregate principal amount of 0.25% convertible senior due June 1, 2022, of which $272.1 million was repurchased in June 2020 and $12.7 million was settled in cash in the second quarter of 2021. As of June 30, 2021, $68.7 million of principal remains outstanding on the 2022 Notes. Also in June 2020, we issued $460 million aggregate principal amount of convertible senior notes due June 1, 2025. The fair value of our convertible senior notes is subject to interest rate risk, market risk and other factors due to the convertible feature. The fair value of the convertible senior notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. The interest and market value changes affect the fair value of our convertible senior notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Generally, the fair values of 2022 Notes and the 2025 Notes (the “Notes”) will increase as interest rates fall and decrease as interest rates rise. Additionally, we carry the convertible senior notes at face value less unamortized discount on our balance sheet, and we present the fair value for required disclosure purposes only.

The table below provides a sensitivity analysis of hypothetical 10% changes of our stock price as of June 30, 2021 and the estimated impact on the fair value of the Notes. The selected scenarios are not predictions of future events, but rather are intended to illustrate the effect such event may have on the fair value of the Notes.

2022 Notes

Hypothetical change in HubSpot stock price	Fair value	Estimated change in fair value	Hypothetical percentage increase (decrease) in fair value
10% increase	$ 463,957	$ 42,638	10%
No change	$ 421,319	$ —	—
10% decrease	$ 379,530	$ (41,789)	(10)%

2025 Notes

Hypothetical change in HubSpot stock price	Fair value	Estimated change in fair value	Hypothetical percentage increase (decrease) in fair value
10% increase	$ 1,066,197	$ 80,210	8%
No change	$ 985,987	$ —	—
10% decrease	$ 889,060	$ (96,927)	(10)%

tem 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II
Other Information

tem 1. 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 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 Quarterly Report on Form 10-Q 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 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

The effects of the COVID-19 pandemic have materially affected how we and our customers are operating our businesses, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

The COVID-19 pandemic and the related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, customers, economies, and financial markets globally, leading to an economic downturn and increased market volatility. It has also disrupted the normal operations of many businesses, including ours.

In response to the pandemic, we temporarily closed our global offices, including our corporate headquarters, suspended all company-related travel, and all HubSpot employees globally were required to work from home for several months during the height of the pandemic. We shifted our Solutions Partner events, INBOUND 2020 and INBOUND 2021 to virtual-only experiences and have cancelled other customer and industry events. Although we have begun to slowly re-open our offices on a staggered, region-by-region basis in accordance with local authority guidelines, we may deem it advisable to similarly alter, postpone or cancel entirely additional customer, employee or industry events in the future. All of these changes may disrupt the way we operate our business. In addition, our management team has, and will likely continue, to spend significant time, attention and resources monitoring the COVID-19 pandemic and seeking to minimize the risk of the virus and manage its effects on our business and workforce.

Moreover, the conditions caused by the pandemic may affect the rate of spending on software products and may adversely affect our customers' ability or willingness to purchase our offerings; the timing of our current or prospective customers' purchasing decisions; pricing discounts or extended payment terms; reductions in the amount or duration of customers' subscription contracts; or increase customer attrition rates, all of which could adversely affect our future sales, operating results and overall financial performance. If the pandemic and its residual effects have a substantial impact on the ability of our customers to purchase our offerings, our results of operations, and overall financial performance may be harmed.

The duration and extent of the impact from the pandemic depends on future developments that cannot be accurately predicted at this time, such as the severity and transmission rate of the virus, future spikes of COVID-19 infections (including the spread of variants or mutant strains), the extent and effectiveness of containment actions, the disruption caused by such actions, and the impact of these and other factors on our employees, customers, partners and vendors. If we are not able to respond to and manage the impact of such events effectively, our business will be harmed.

To the extent the pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section, including, in particular, risks related to our dependence on customer renewals, the addition of new customers and increased revenue from existing customer, risks that our operating results could be negatively affected by changes in the sizes or types of businesses that purchase our platform and the risk that weakened global economic conditions may harm our industry, business and results of operations.

We are dependent upon customer renewals, the addition of new customers, increased revenue from existing customers and the continued growth of the market for a CRM Platform.

We derive, and expect to continue to derive, a substantial portion of our revenue from the sale of subscriptions to our CRM Platform. The market for inbound marketing, sales and customer service 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 provide us with an opportunity to increase the value of our customer relationships over time 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 tiers, for fewer contacts or seats, or for shorter contract lengths. Also, customers may choose not to renew their subscriptions for a variety of reasons. Our renewal rates may decline or fluctuate as a result of a number of factors, including limited customer resources, pricing changes, the prices of services offered by our competitors, adoption and utilization of our platform and add-on applications by our customers, adoption of our new products, customer satisfaction with our platform, mergers and acquisitions affecting our customer base, reductions in our customers' spending levels or declines in customer activity as a result of economic downturns or uncertainty in financial markets. 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. In addition, a subscription model creates certain risks related to the timing of revenue recognition and potential reductions in cash flows. A portion of the subscription-based revenue we report each quarter results from the recognition of deferred revenue relating to subscription agreements entered into during previous quarters. A decline in new or renewed subscriptions in any period may not be immediately reflected in our reported financial results for that period, but may result in a decline in our revenue in future quarters. If we were to experience significant downturns in subscription sales and renewal rates, our reported financial results might not reflect such downturns until future periods.

We face significant competition from both established and new companies offering marketing, sales and customer service 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, sales, customer service, and content management 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, sales, customer service, and content management software and from marketing services companies that provide interactive marketing services. Competition could significantly impede our ability to sell subscriptions to our CRM 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;
- large-scale enterprise suites;
- customer service software providers; and
- content management systems.

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 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, sales, customer service and content management 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 CRM 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 headcount and operations have grown substantially. For example, we had 4,981 full-time employees as of June 30, 2021, compared with 4,225 as of December 31, 2020 and we have opened 8 international offices since 2012. We also plan to open additional offices in the future. 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. Furthermore, while we have begun to slowly re-open our offices on a staggered, region-by-region basis in accordance with local authority guidelines, preservation of our corporate culture has been made more difficult as our work force has been working from home in connection with restrictions placed upon businesses due to the pandemic. A long-term continuation of these restrictions could, among other things, negatively impact employee morale and productivity. Any failure to preserve our culture could harm our future success, including our ability to retain and recruit personnel, innovate and operate effectively and execute on our business strategy. Additionally, as our employees work remotely from geographic areas across the globe and more of our employees work remotely on a permanent basis due to the pandemic, and pursuant to our newly implemented hybrid workplace model (which provides our employees with the option to be fully remote, work full-time from one of our offices, or have the flexibility to work both in the office and remotely), we may need to reallocate our investment of resources and closely monitor a variety of local regulations and requirements, including local tax laws, and we may experience unpredictability in our expenses and employee work culture. If we experience any of these effects in connection with future growth, 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, it could materially impair our ability to attract new customers, retain existing customers and expand their use of our platform, all of which would materially and adversely affect our business, financial condition and results of operations.

In addition, to manage the expected continued growth of our headcount, operations and geographic expansion, we will need to continue to expand our information technology infrastructure, operational, financial and management systems and procedures. Our anticipated additional headcount 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, sales, customer service, and content management capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our platform.

To increase Total Customers and achieve broader market acceptance of our CRM Platform, we will need to continue to expand our marketing, sales, customer service and content management 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 CRM 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 Solutions Partners.

We rely on our Solutions Partners to provide certain services to our customers, as well as pursue sales of our CRM Platform to customers. To the extent we do not attract new Solutions Partners, or existing or new Solutions Partners do not refer a growing number of customers to us, our revenue and operating results would be harmed. In addition, if our Solutions 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 fail to maintain our inbound thought leadership position, our business may suffer.

We believe that maintaining our thought leadership position in inbound marketing, sales, services and content management 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, services, and content management, 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 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 CRM 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 CRM Platform may become less competitive.

Our future success depends on our ability to adapt and innovate our CRM 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 CRM 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.

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 CRM 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 CRM 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 CRM 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 CRM 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 CRM 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 CRM Platform purchased or used by our customers could negatively affect our operating results.

Our strategy is to sell subscriptions to our CRM 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 CRM 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.

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

Our strategy is to sell subscriptions to our CRM 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 CRM 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, the acquisition of PieSync in 2019 and the Hustle in 2021. 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 have opened 8 international offices since 2012. We also plan to open additional offices in the future. These international offices focus primarily on sales, professional services and support. 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, including remote 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;
- global economic uncertainty caused by global political events, including the United Kingdom's exit from the European Union, on January 31, 2020, or "Brexit", and similar geopolitical developments;
- 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.

Risks Related to Employee Matters

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. In the third quarter of 2020, we made the decision to permanently move to a hybrid workplace model, which means that as of January 1, 2021, our employees will have the option to be fully remote, work full-time from one of our offices, or have the flexibility to work both in the office and remotely. Furthermore, while we have begun to slowly re-open our offices on a staggered, region-by-region basis in accordance with local authority guidelines, preservation of our corporate culture has been made more difficult as our work force has been working from home in connection with restrictions placed upon businesses due to the pandemic. 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 and continue to develop our company infrastructure, we may find it difficult to maintain these important aspects of our company culture and our business may be adversely impacted.

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, our chief executive officer, Yamini Rangan, and other key employees in the areas of research and development, marketing, sales, services, content management, 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, services, and content management 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 and will continue to experience a competitive hiring environment as we recruit for remote talent worldwide. 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.

Risks Related to Our Technical Operations Infrastructure and Dependence on Third Parties

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 located in northern Virginia and Google Cloud Platform located in Frankfurt, Germany. 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, such as earthquakes and hurricanes, actual or threatened public health emergency (e.g., COVID-19), 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, such as earthquakes or hurricane, 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.

If our CRM Platform has outages or 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. Although no data from prior to the outage was lost, our customers experienced disruptions in using our platform during the outage. Defects or errors could result in product outages and 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 product outages, 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. Furthermore, these issues could subject us to service performance credits (whether offered by us or required by contract), warranty claims or increased insurance costs. The costs associated with product outages, any material defects or errors in our platform or other performance problems may be substantial and could materially adversely affect our operating results.

In addition, third-party apps and features on our CRM Platform may not meet the same quality standards that we apply to our own development efforts and, to the extent they contain bugs, vulnerabilities or defects, they may create disruptions in our customers' use of our products, lead to data loss, unauthorized access to customer data, damage our brand and reputation and affect the continued use of our products, any of which could harm our business, results of operations and financial condition.

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 CRM 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 CRM 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 ("APIs") published by these providers. The functionality and popularity of our CRM 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, services or content management purposes, or fail to renew existing relationships pursuant to which we currently provide such integration, we may not be able to offer the functionality that our customers need, which would negatively impact our ability to generate new revenue or maintain existing 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 CRM 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 CRM 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 CRM Platform and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance or loss of any such action.

If our or our customers' security measures are compromised or unauthorized access to data of our customers or their customers is otherwise obtained, our CRM 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, our security policies or our acceptable use policy, 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.

Cyber-attacks, denial-of-service attacks, ransomware attacks, business email compromises, computer malware, viruses, and social engineering (including phishing) are prevalent in our industry and our customers' industries. Our internal computer systems and those of our current and any future strategic collaborators, vendors, and other contractors or consultants are vulnerable to damage from cyber-attacks, computer viruses, unauthorized access, natural disasters, cybersecurity threats, terrorism, war and telecommunication and electrical failures. Cyber incidents have been increasing in sophistication and frequency and can include third parties gaining access to employee or customer data using stolen or inferred credentials, computer malware, viruses, spamming, phishing attacks, ransomware, card skimming code, and other deliberate attacks and attempts to gain unauthorized access. The techniques used to sabotage or to obtain unauthorized access to our platform, systems, networks, or physical facilities in which data is stored or through which data is transmitted change frequently, and we may be unable to implement adequate preventative measures or stop security breaches while they are occurring. Because the techniques used by computer programmers who may attempt to penetrate and sabotage our network security or our website change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. Additionally, during the ongoing pandemic, and potentially beyond as remote work and resource access expand, there is an increased risk that we may experience cybersecurity-related events such as COVID-19 themed phishing attacks, exploitation of any cybersecurity flaws that may exist, an increase in the number cybersecurity threats or attacks, and other security challenges as a result of most of our employees and our service providers continuing to work remotely from non-corporate managed networks. We have previously been, and may in the future become, the target of cyber-attacks by third parties seeking unauthorized access to our or our customers' data or to disrupt our operations or ability to provide our services.

Additionally, it is also possible that unauthorized access to sensitive customer and business data may be obtained through inadequate use of security controls by our customers, suppliers or other vendors. While we are not currently aware of any impact that the SolarWinds supply chain attack had on our business, new information on the scope of the attack is continuing to emerge and there is a residual risk that we may experience a security breach arising from the SolarWinds supply chain attack or a similar attack in the future.

If we were to experience a cyberattack and suffer interruptions in our operations, it could result in a material disruption of our development programs and our business operations, whether due to a loss of our trade secrets or other proprietary information or other disruptions. These cyber-attacks could be carried out by threat actors of all types (including but not limited to nation states, organized crime, other criminal enterprises, individual actors and/or advanced persistent threat groups). In addition, we may experience intrusions on our physical premises by any of these threat actors. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and our competitive position could be harmed. Any breach, loss, or compromise of personal data may also subject us to civil fines and penalties, or claims for damages either under the General Data Protection Regulation (the "GDPR") and relevant member state law in the European Union, other foreign laws, and other relevant state and federal privacy laws in the United States.

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.

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 CRM 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

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. For example, California recently enacted the California Consumer Privacy Act (the "CCPA"), that, among other things, require covered companies to provide new disclosures to California consumers and afford such consumers new abilities to opt-out of certain sales of personal information. The CCPA recently was amended and it is not yet fully clear how the CCPA will be enforced and how certain of its requirements will be interpreted. We cannot yet predict the impact of the CCPA on our business or operations, but it may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply.

Additionally, a new California ballot initiative, the California Privacy Rights Act, or CPRA, was passed in November 2020. Effective starting on January 1, 2023, the CPRA imposes additional obligations on companies covered by the legislation and will significantly modify the CCPA, including by expanding consumers' rights with respect to certain sensitive personal information. The CPRA also creates a new state agency that will be vested with authority to implement and enforce the CCPA and the CPRA. The effects of the CCPA and the CPRA are potentially significant and may require us to modify our data collection or processing practices and policies and to incur substantial costs and expenses in an effort to comply and increase our potential exposure to regulatory enforcement and/or litigation.

Certain other state laws impose similar privacy obligations and we also expect anticipate that more states to may enact legislation similar to the CCPA, which provides consumers with new privacy rights and increases the privacy and security obligations of entities handling certain personal information of such consumers. The CCPA has prompted a number of proposals for new federal and state-level privacy legislation. Such proposed legislation, if enacted, may add additional complexity, variation in requirements, restrictions and potential legal risk, require additional investment of resources in compliance programs, impact strategies and the availability of previously useful data and could result in increased compliance costs and/or changes in business practices and policies.

In addition, on March 2, 2021, Virginia enacted the Consumer Data Protection Act (the "CDPA"). The CDPA will become effective January 1, 2023. The CDPA will regulate how businesses (which the CDPA refers to as "controllers") collect and share personal information. While the CDPA incorporates many similar concepts of the CCPA and CPRA, there are also several key differences in the scope, application, and enforcement of the law that will change the operational practices of controllers. The new law will impact how controllers collect and process personal sensitive data, conduct data protection assessments, transfer personal data to affiliates, and respond to consumer rights requests.

Also, on July 8, 2021, Colorado's governor signed the Colorado Privacy Act ("CPA"), into law. The CPA will become effective July 1, 2023. The CPA is rather similar to the Virginia's CPDA but also contains additional requirements. The new measure applies to companies conducting business in Colorado or who produce or deliver commercial products or services intentionally targeted to its residents of the state that either: (1) control or process the personal data of at least 100,000 consumers during a calendar year; or (2) derive revenue or receive a discount on the price of goods or services from the sale of personal data and process or control the personal data of at least 25,000 consumers.

With the CPA, Colorado became the third state to enact a comprehensive privacy law but it is quite possible that other states will follow suit. The existence of comprehensive privacy laws in different states in the country will make our compliance obligations more complex and costly and may increase the likelihood that we may be subject to enforcement actions or otherwise incur liability for noncompliance.

In addition, several foreign jurisdictions, 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 U.S. 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. In relevant part, these laws and regulations may affect our ability to engage in lead generation activities by imposing heightened requirements, such as affirmative opt-ins or consent prior to sending commercial correspondence or engaging in electronic tracking activities. For example, a recent ruling of the European Court of Justice in Case C-673/17 provides that a pre-checked opt-in is insufficient to constitute a valid active consumer consent to cookie storage.

Within the European Union, legislators have adopted the GDPR and which became effective in 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. In addition, further to the United Kingdom's exit from the European Union on January 31, 2020, the GDPR ceased to apply in the United Kingdom at the end of the transition period on December 31, 2020. However, as of January 1, 2021, the United Kingdom's European Union (Withdrawal) Act 2018 incorporated the GDPR (as it existed on December 31, 2020 but subject to certain United Kingdom specific amendments) into United Kingdom law (the "UK GDPR"). The UK GDPR and the UK Data Protection Act 2018 set out the United Kingdom's data protection regime, which is independent from but aligned to the European Union's data protection regime. Non-compliance with the UK GDPR may result in monetary penalties of up to £17.5 million or 4% of worldwide revenue, whichever is higher. The United Kingdom, however, is now regarded as a third country under the European Union's GDPR which means that transfers of personal data from the European Economic Area to the United Kingdom will be restricted unless an appropriate safeguard, as recognized by the European Union's GDPR, has been put in place. However, under the EU-UK Trade Cooperation Agreement it is lawful to transfer personal data between the United Kingdom and the European Economic Area for a 6 month period following the end of the transition period, with a view to achieving an adequacy decision from the European Commission during that period. Like the European Union GDPR, the UK GDPR restricts personal data transfers outside the United Kingdom to countries not regarded by the United Kingdom as providing adequate protection (this means that personal data transfers from the United Kingdom to the European Economic Area remain free flowing).

On July 12, 2016, the European Commission adopted the EU-US Privacy Shield, a framework for the transfer of personal data from the European Union to the United States, as a successor to the Safe Harbor framework that was invalidated by the European Court of Justice in October 2015. We certified to the EU-US Privacy Shield. On July 16, 2020, the European Court of Justice invalidated the EU–US Privacy Shield ruling that it failed to offer adequate protections for European Union personal data transferred to the United States. The European Court of Justice, in the same decision, deemed that the Standard Contractual Clauses, or SCCs, approved by the European Commission for transfers of personal data between European Union controllers and non-European Union processors are valid, however the European Court of Justice deemed that transfers made pursuant to the SCCs need to be analyzed on a case-by-case basis to ensure the European Union's standards of data protection are met. Our customer agreements include SCCs. However, as a result of this decision, companies may be required to adopt additional measures to accomplish transfers of personal data to the United States and other third countries in compliance with the GDPR, and there continue to be concerns about whether the SCCs will face additional challenges. Until the remaining legal uncertainties regarding how to legally continue these transfers are settled, we will continue to face uncertainty as to whether our customers will be permitted to transfer personal data to the United States for processing by us as part of our platform services. If such data transfer to the United States is not permitted, it could have a negative effect on our existing business and on our ability to attract and retain new customers. Our customers may view alternative data transfer mechanisms 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 who do business in the European Union may require their vendors to host all personal data within the European Union and may decide to do business with one of our competitors who hosts personal data within the European Union instead of doing business with us. In addition, on June 4, 2021, the European Commission issued new forms of standard contractual clauses for data transfers from controllers or processors in the EU/EEA (or otherwise subject to the GDPR) to controllers or processors established outside the EU/EEA (and not subject to the GDPR): The new forms of standard contractual clauses will replace the standard contractual clauses that were adopted previously under the Data Protection Directive. We will be required to transition to the new forms of standard contractual clauses and doing so will require significant effort and cost. The new standard contractual clauses may also impact our business as companies based in Europe may be reluctant to utilize the new clauses to legitimize transfers of personal information to third countries given the burdensome requirements of transfer impact assessments and the substantial obligations that the new standard contractual clauses impose upon exporters.

The regulatory framework governing the collection, processing, storage, use and sharing of certain information, particularly financial and other personal information, is rapidly evolving and is likely to continue to be subject to uncertainty and varying interpretations. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our services and platform capabilities. Any failure or perceived failure by us, or any third parties with which we do business, to comply with our posted privacy policies, changing consumer expectations, evolving laws, rules and regulations, industry standards, or contractual obligations to which we or such third parties are or may become subject, may result in actions or other claims against us by governmental entities or private actors, the expenditure of substantial costs, time and other resources or the incurrence of significant fines, penalties or other liabilities. In addition, any such action, particularly to the extent we were found to be guilty of violations or otherwise liable for damages, would damage our reputation and adversely affect our business, financial condition and results of operations.

We publicly post documentation regarding our practices concerning the collection, processing, use and disclosure of data. Although we endeavor to comply with our published policies and documentation, we may at times fail to do so or be alleged to have failed to do so. Any failure or perceived failure by us to comply with our privacy policies or any applicable privacy, security or data protection, information security or consumer-protection related laws, regulations, orders or industry standards could expose us to costly litigation, significant awards, fines or judgments, civil and/or criminal penalties or negative publicity, and could materially and adversely affect our business, financial condition and results of operations. The publication of our privacy policy and other documentation that provide promises and assurances about privacy and security can subject us to potential state and federal action if they are found to be deceptive, unfair, or misrepresentative of our actual practices, which could, individually or in the aggregate, materially and adversely affect our business, financial condition and results of operations.

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.

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, sales and customer service 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. Furthermore, customers may upload, store, or use content on our CRM Platform that may violate our policy on acceptable use which prohibits content that is threatening, abusive, harassing, deceptive, false, misleading, vulgar, obscene, or indecent. While such content may not be illegal, use of our CRM Platform for such content could harm our reputation resulting in a loss of business.

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.

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.

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 CRM 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 CRM 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 CRM 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 CRM 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 CRM 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 CRM 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 Taxation

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 non-U.S. jurisdictions have differing rules and regulations governing sales, use, value added, Digital Services Tax, 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 CRM 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 CRM 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 CRM 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. Furthermore, as our employees continue to work remotely from geographic locations across the United States and internationally due to the pandemic and other reasons, we may become subject to additional taxes and our compliance burdens with respect to the tax laws of additional jurisdictions may be increased.

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, or challenges to our tax positions by tax authorities, any of which could have a material adverse effect on our liquidity, financial condition or operating results. 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, or assert that we are subject to tax in a jurisdiction where we believe we have not established a taxable nexus, often referred to as a "permanent establishment" under international tax treaties, any of which could have a material impact us, our financial condition or our results of our operations.

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

We have incurred losses during our history and do not expect to become profitable in the near future, and we may never achieve profitability. As of December 31, 2020, we had $760 million of U.S. federal and $508 million state net operating loss carryforwards due to prior period losses, which, if not utilized, some of which will begin to expire in 2027 for federal purposes and begin to expire in 2023 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. Our U.S federal and certain state net operating loss carryforwards incurred for periods beginning on or after January 1, 2018 would not expire unused because they can be carried forward indefinitely. In addition, under Section 382 and Section 383 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". An 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. We may have experienced an ownership change in the past, and future issuances of our stock could cause an ownership change. It is possible that any such ownership change could have a material effect on the use of our net operating loss carryforwards or other tax attributes accrued prior to such ownership change, which could adversely affect our profitability.

Risks Related to Our Operating Results and Financial Condition

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

We generated net losses of $47.7 million and $47.1 million for the six months ended June 30, 2021 and 2020, respectively. As of June 30, 2021, we had an accumulated deficit of $530.9 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, sales, customer service, and content management operations, develop and enhance our CRM 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 Quarterly Report on Form 10-Q, 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.

From time to time, we may invest funds in social impact investment funds, and may receive no return on our investment or lose our entire investment.

From time to time, we may invest in social impact investment funds. For example, in December 2020, we committed $20 million to social impact investing. Our first allocation of those funds was a commitment to invest $12.5 million in the Black Economic Development Fund ("BEDF") over the fall. On March 9, 2021, we made a contribution of $2.3 million in cash in the BEDF. On June 22, 2021, we made an additional contribution of $0.8 million in cash for an aggregate of 5.0% ownership interest and income share in the BEDF. The BEDF is managed by the Local Initiatives Support Corporation ("LISC"), which expects to make investments from the BEDF in the form of bank deposits, bridge financing, and other financing to Black-led businesses, financial institutions, and anchor institutions. There is no guarantee as to the performance of this investment or any similar investments we make in the future. Depending on the performance of this investment and future investments we may make, we may not receive any return on our investment or we may lose our entire investment, which could have an adverse effect on our business.

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 Quarterly Report on Form 10-Q, factors that may affect our quarterly operating results include the following:

- changes in spending on marketing, sales and customer service software by our current or prospective customers;
- pricing our CRM Platform subscriptions effectively so that we are able to attract and retain customers without compromising our profitability;
- attracting new customers for our marketing, sales, customer service, and content management 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 CRM Platform in new markets outside of the United States;
- 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;
- the effects of inflation or deflation in the economies in which we operate; 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 CRM 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.

Risks Related to Our Notes

Servicing our debt may require a significant amount of cash. We may not have sufficient cash flow from our business to pay our indebtedness, and we may not have the ability to raise the funds necessary to settle for cash conversions of the Notes or to repurchase the Notes for cash upon a fundamental change, which could adversely affect our business and results of operations.

We incurred indebtedness in the aggregate principal amount of $400.0 million in connection with the issuance of our 0.25% convertible senior notes due June 1, 2022 (the “2022 Notes”). In June 2020, the Company exchanged approximately $272.1 million in aggregate principal amount of the 2022 Notes in privately-negotiated transactions for an aggregate of approximately $283.0 million in cash and 1.6 million shares of common stock. As of June 30, 2021, $68.7 million of principal remains outstanding on the 2022 Notes. In June 2020, concurrent with the partial repurchase of the 2022 Notes, we incurred indebtedness in the aggregate principal amount of $460.0 million in connection with the issuance of our 0.375% convertible senior notes due June 1, 2025 (the “2025 Notes”) and together with the 2022 Notes (the “Notes”). Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional debt financing or equity capital on terms that may be onerous or highly dilutive. Our ability to refinance any future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations. In addition, any of our future debt agreements may contain restrictive covenants that may prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of our debt.

In addition, holders of the Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. Upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or Notes being converted. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase Notes at a time when the repurchase is required by the indenture governing the notes or to pay any cash payable on future conversions of the Notes as required by such indenture would constitute a default under such indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof.

In addition, our indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

- make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry and competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;

- place us at a disadvantage compared to our competitors who have less debt; and
- limit our ability to borrow additional amounts to fund acquisitions, for working capital and for other general corporate purposes.

Any of these factors could materially and adversely affect our business, financial condition and results of operations. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase.

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

In the event the conditional conversion feature of the 2022 Notes or the 2025 Notes is triggered, the holders thereof will be entitled to convert the 2022 Notes or the 2025 Notes respectively, at any time during specified periods at their option.

Because the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the calendar quarter ended June 30, 2021 was equal to or greater than 130% of the applicable conversion price on each applicable trading day, the 2022 Notes are convertible at the option of the holders thereof during the calendar quarter ending September 30, 2021. In the three months ended June 30, 2021, the Company settled $12.7 million of principal balance of the 2022 Notes in cash. As of July 30, 2021, the Company has received conversion notices for approximately $46.4 million of the principal balance of the 2022 Notes, which will be settled in cash during the quarter ended September 30, 2021. Because the last reported sale price of the Company's common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the calendar quarter ended June 30, 2021 was equal to or greater than 130% of the applicable conversion price on each applicable trading day, the 2025 Notes are convertible at the option of the holders thereof during the calendar quarter ending September 30, 2021. As of July 30, 2021, no holders have converted or indicated their intention to convert the 2025 Notes. Whether the Notes that remain outstanding will be convertible following the calendar quarter ending June 30, 2021 will depend on the continued satisfaction of this condition or another conversion condition in the future. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification 470-20, Debt with Conversion and Other Options, which we refer to as ASC 470-20, an entity must separately account for the liability and equity components of convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. ASC 470-20 requires the value of the conversion option of the Notes, representing the equity component, to be recorded as additional paid-in capital within stockholders' equity in our consolidated balance sheet and as a discount to the Notes, which reduces their initial carrying value. The carrying value of the Notes, net of the discount recorded, will be accreted up to the principal amount of the Notes from the issuance date until maturity, which will result in non-cash charges to interest expense in our consolidated statement of operations. Accordingly, we will report lower net income or higher net loss in our financial results because ASC 470-20 requires interest to include both the current period's accretion of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued.

In August 2020, the FASB issued guidance simplifying ASC 470-20 by reducing the number of accounting models for convertible debt instruments and convertible preferred stock. Under the new guidance, we will no longer be required to separately account for the liability and equity components of convertible debt instruments. This will have the impact of reducing non-cash interest expense, and thereby increasing net income (or decreasing net losses). Additionally, the new guidance eliminates the treasury stock method for calculating diluted earnings per share for convertible instruments and requires use of the "if-converted" method, which would decrease (increase) our diluted net income (loss) per share. The new standard is effective beginning in January 2022, with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

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 $605.73, through June 30, 2021. 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;
- 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;
- sales of large blocks of our common stock or the dilutive effect of our Notes or any other equity or equity-linked financings;
- 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.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

As a public company 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. We expect that compliance with these rules and regulations will continue to increase our legal, accounting and financial compliance costs, make some activities more difficult, time consuming and costly, and place significant strain on our personnel, systems and resources.

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.

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. In addition, as a result of the pandemic, most of our employees – including those critical to maintaining an effective system of disclosure controls and internal control over financial reporting – are working, and are expected to continue to work for the near term, in a remote environment and not in the office environment from which they have historically performed their duties. We have limited experience maintaining effective control systems with our employees working in remote environments, and risks that we have not contemplated may arise and result in our failure to maintain effective disclosure controls or internal control over financial reporting.

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.

General Risks

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.

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, Singapore Dollar, Japanese Yen and Colombian Peso. 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. Furthermore, global political events, including Brexit and similar geopolitical developments, fluctuating commodity prices and trade tariff developments, have caused global economic uncertainty, which could amplify the volatility of currency fluctuations. Such volatility, even when it increases our revenues or decreases our expenses, impacts our ability to predict our future results and earnings accurately. 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.

Weakened global economic conditions may harm our industry, business and results of operations.

Our overall performance depends in part on worldwide economic conditions. Global financial developments and downturns seemingly unrelated to us or the software industry may harm us. The United States and other key international economies have been affected from time to time by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, bankruptcies, inflation and overall uncertainty with respect to the economy, including with respect to tariff and trade issues. In particular, the economies of countries in Europe have been experiencing weakness associated with high sovereign debt levels, weakness in the banking sector, uncertainty over the future of the Euro zone and volatility in the value of the pound sterling and the Euro, including instability surrounding Brexit. We have operations, as well as current and potential new customers, throughout most of Europe. If economic conditions in Europe and other key markets for our platform continue to remain uncertain or deteriorate further, it could adversely affect our customers' ability or willingness to subscribe to our platform, delay prospective customers' purchasing decisions, reduce the value or duration of their subscriptions or affect renewal rates, all of which could harm our operating results.

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. The Notes are and any additional equity or equity-linked financings would be dilutive to our stockholders. 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.

tem 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

tem 3. Defaults on Senior Securities

None.

tem 4. Mine Safety Disclosures

Not Applicable.

tem 5. Other Information

None.

tem 6. Exhibits

The exhibits listed below are filed or incorporated by reference into this Report.

Exhibit Number	Exhibit Title
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant
3.2(2)	Third Amended and Restated Bylaws of the Registrant (as currently in effect)
4.1(3)	Form of Common Stock certificate of the Registrant
31.1**	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2**	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1*	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS**	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document
101.SCH**	Inline XBRL Taxonomy Extension Schema Document
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104**	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*)

** Filed herewith.

(1) Incorporated by reference to Exhibit 3.1 to HubSpot, Inc.'s Annual Report on Form 10-K filed on February 24, 2016.
(2) Incorporated by reference to Exhibit 3.2 to HubSpot Inc.'s Quarterly Report on Form 10-Q filed on November 5, 2020.
(3) Incorporated by reference to Exhibit 4.1 to Amendment No. 1 to Registrant's Registration Statement on Form S-1 (SEC File No. 333-198333) filed on September 26, 2014.

* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference.

SIGNATURES

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

HUBSPOT, INC.

By:	/s/ Kate Bueker
Name:	Kate Bueker
Title:	Chief Financial Officer *(Principal Financial and Accounting Officer and Authorized Signatory)*

August 4, 2021

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to
Exchange Act Rules 13a-14(a) and 15d-14(a),
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Brian Halligan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HubSpot, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2021	By:	/s/ Brian Halligan
		Brian Halligan
		Chief Executive Officer
		(Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to
Exchange Act Rules 13a-14(a) and 15d-14(a),
As Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Kate Bueker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HubSpot, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 4, 2021

By: /s/ Kate Bueker
Kate Bueker
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brian Halligan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of HubSpot, Inc. for the period ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of HubSpot, Inc.

Date: August 4, 2021

By: /s/ Brian Halligan
Brian Halligan
Chief Executive Officer
(Principal Executive Officer)

I, Kate Bueker, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Quarterly Report on Form 10-Q of HubSpot, Inc. for the period ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of HubSpot, Inc.

Date: August 4, 2021

By: /s/ Kate Bueker
Kate Bueker
Chief Financial Officer
(Principal Financial Officer)

The foregoing certifications are not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not to be incorporated by reference into any filing of HubSpot, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.