

HUBSPOT INC
Form 10-K
February 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission File Number 001-36680

HubSpot, Inc.

(Exact name of registrant as specified in its charter)

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

25 First Street, 2nd Floor

Cambridge, Massachusetts, 02141

(Address of principal executive offices)

Edgar Filing: HUBSPOT INC - Form 10-K

(888) 482-7768

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

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

Edgar Filing: HUBSPOT INC - Form 10-K

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

The aggregate market value of common stock held by non-affiliates of the registrant, based on the closing price of the registrant's common stock on June 30, 2017, as reported by the New York Stock Exchange on such date was approximately \$3,304,897,251. Shares of the registrant's common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

On February 7, 2018, the registrant had 37,858,197 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2018 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

HUBSPOT, INC.

TABLE OF CONTENTS

	Page No.
<u>PART I</u>	
ITEM 1. <u>Business</u>	2
ITEM 1A. <u>Risk Factors</u>	14
ITEM 1B. <u>Unresolved Staff Comments</u>	32
ITEM 2. <u>Properties</u>	33
ITEM 3. <u>Legal Proceedings</u>	33
ITEM 4. <u>Mine Safety Disclosures</u>	33
<u>PART II</u>	
ITEM 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	34
ITEM 6. <u>Selected Financial Data</u>	36
ITEM 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	38
ITEM 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	55
ITEM 8. <u>Financial Statements and Supplementary Data</u>	56
ITEM 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u>	85
ITEM 9A. <u>Controls and Procedures</u>	85
ITEM 9B. <u>Other Information</u>	86
<u>PART III</u>	
ITEM 10. <u>Directors, Executive Officers and Corporate Governance</u>	87
ITEM 11. <u>Executive Compensation</u>	87
ITEM 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	87
ITEM 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	87
ITEM 14. <u>Principal Accounting Fees and Services</u>	87
<u>PART IV</u>	
ITEM 15. <u>Exhibits, Financial Statement Schedules</u>	88
ITEM 16. <u>10-K Summary</u>	88
<u>SIGNATURES</u>	91

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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 Annual Report on Form 10-K 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,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- our future financial performance, including our expectations regarding our revenue, cost of revenue, gross margin and operating expenses;
- maintaining and expanding our customer base and increasing our average subscription revenue per customer;
- the impact of competition in our industry and innovation by our competitors;
- our anticipated growth and expectations regarding our ability to manage our future growth;
- our predictions about industry and market trends;
- our ability to anticipate and address the evolution of technology and the technological needs of our customers, to roll-out upgrades to our existing software platform and to develop new and enhanced applications to meet the needs of our customers;
- our ability to maintain our brand and inbound marketing thought leadership position;
- the impact of our corporate culture and our ability to attract, hire and retain necessary qualified employees to expand our operations;
- the anticipated effect on our business of litigation to which we are or may become a party;
- our ability to successfully acquire and integrate companies and assets
- 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 Annual Report on Form 10-K.

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

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law.

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

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

PART 1

ITEM I. BUSINESS

Overview

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

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

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

While our Software Platform can scale to the enterprise, we focus on selling to mid-market businesses, which we define as businesses that have between 10 and 2,000 employees. We believe we have significant competitive advantages attracting and serving this market segment. We efficiently reach these businesses at scale through our proven inbound go-to-market approach, freemium pricing strategy and thousands of marketing agency and sales partners, which we refer to as our Partners, worldwide. Our Software Platform is particularly suited to serving the needs of mid-market business-to-business, or B2B, companies. These mid-market businesses seek an integrated, easy to implement and easy to use solution to reach customers and compete with organizations that have larger marketing and sales budgets. As of December 31, 2017, we had 41,593 total customers of varying sizes in more than 90 countries, representing almost every industry.

We have a leading brand in the cloud-based inbound marketing and sales software industry. Our brand recognition comes from our thought leadership, including our blogs, which average more than 4.5 million visits each month, and our commitment to innovation. Our founders, Brian Halligan and Dharmesh Shah, wrote the best-selling marketing book *Inbound Marketing: Get Found Using Google, Social Media and Blogs*. We also have one of the largest social media followings in our industry and our INBOUND conference is one of the largest inbound industry events, with over 21,000 registered attendees in 2017.

We sell our Software Platform on a subscription basis. Our total revenue increased to \$375.6 million in 2017, from \$271.0 million in 2016, and from \$181.9 million in 2015, representing year-over-year increases of 39% in 2017 and 49% in 2016. We had net losses of \$39.7 million in 2017, \$45.6 million in 2016, and \$46.1 million in 2015.

Industry Background

The Traditional Business Playbook is Broken

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

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

- Hundreds of millions phone numbers have been placed on the U.S. Do Not Call registry.
- People have unsubscribed from email marketing lists.
- Email services and spam filters are increasingly enabling customers to filter out and de-prioritize promotional messages.
- Online advertising has limited engagement.

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

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

Businesses Need a New Playbook—The Inbound Experience

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

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

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

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

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

Existing Applications are Not Adequate for an Integrated Inbound Experience

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

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

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

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

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

Market Opportunity

We believe there is a large market opportunity created by the fundamental transformation in marketing and sales. Businesses of nearly all sizes and in nearly all industries can benefit from delivering an inbound experience to attract, engage and delight their customers. We focus on selling our Software Platform to mid-market businesses. As of December 31, 2017, we had 41,593 total customers, and our total average subscription revenue per customer for the year ended December 31, 2017 was \$10,180.

We believe our Software Platform addresses several segments of existing marketing, sales and services software and that spending in each of these segments will increasingly shift to platforms that enable an inbound experience.

Advantages of Our Solution

We provide our Software Platform that helps businesses attract, engage and delight customers throughout the customer lifecycle. Our Software Platform features a central inbound database of lead and customer interactions and integrated applications to help businesses attract visitors to their websites, convert visitors into leads, close leads into customers and delight customers so they become promoters of those businesses.

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

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

Power of All-In-One Platform. At the core of our Software Platform is a single inbound database for each business that captures its lead and customer activity throughout the customer lifecycle. For example, our Software Platform creates a unified timeline incorporating all the interactions with a particular person. If a business's customer visits its website, comments on its blog, opens an email it sent, interacts with the business on Twitter, watches one of its

videos, fills out a form, or is marked as a sales opportunity by its salesperson, all of that activity is centrally managed and presented on the timeline for that contact and is available for use across our applications. Our Software Platform also makes it easy to use the customer data to empower more personalized interactions with the customer, such as personalized social media alerts, personalized content on a business's website, personalized emails and targeted alerts to its sales people.

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

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

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

Our Competitive Strengths

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

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

Market Leadership and Strong Brand. We are a recognized thought leader in the cloud-based inbound marketing and sales software industry with a leading brand. Our founders, Brian Halligan and Dharmesh Shah, wrote the best-selling marketing book *Inbound Marketing: Get Found Using Google, Social Media and Blogs*. More than 90,000 copies have been sold and it is available in nine languages. There are more than 145 self-organized HubSpot user groups. We also have over 2.5 million followers and fans among Twitter, Facebook, LinkedIn and Instagram as of December 31, 2017, including over 145,000 members of LinkedIn who belong to our inbound marketers group. Our INBOUND conference is one of the largest inbound industry conference events with attendance increasing from 1,100 in 2011 to over 21,000 registered attendees in 2017. We believe that it is inherently difficult to replicate the number of websites that link to us, the volume of useful content we have published, our large social media following, the breadth of our search engine rankings and our overall brand strength because these assets cannot be easily purchased or built.

Large and Growing Partner Program. Thousands of agencies partner with us for the value of our Software Platform to their business including being able to offer new inbound marketing and sales services to their clients which can grow their revenue per customer, attract new customers and increase the portion of their clients on a retainer relationship. We believe that the wide adoption of our Software Platform in the agency industry is evidence that we are becoming an industry standard. Partners and customers referred to us by our Partners represented approximately 36% of our total customers as of December 31, 2017, and approximately 40% of our revenue for the year ended December 31, 2017. These Partners help us to promote the vision of the inbound experience, efficiently reach new mid-market businesses at scale and provide our mutual customers with more diverse and higher-touch services.

Mid-Market Focus. We believe we have significant competitive advantages reaching mid-market businesses and efficiently reach this market at scale as a result of our proven inbound go-to-market approach and our Partner channel. In 2017, over 86% of the new leads we generated and over 89% of our new customers were from inbound marketing and did not have any advertising costs associated with them. We believe our large inbound marketing footprint, Partner program, and freemium pricing strategy provide competitive advantages in reaching mid-market businesses.

Powerful Network Effects. We have built a large and growing ecosystem around our Software Platform and company. We have built what we believe is the largest engaged audience in our industry, which now comprises more than 7 million people between visitors to our blogs, Twitter followers, Facebook fans, LinkedIn connections. We have attracted thousands of Partners worldwide who promote our brand and extend our marketing and sales reach. Thousands of our customers integrate third-party applications with our Software Platform using our built-in connectors and third-party developer partners. We have trained and currently certified more than 130,000 marketers on inbound marketing. Our annual INBOUND conference attracted more than 21,000 registered attendees in 2017. We believe this ecosystem drives more businesses and professionals to embrace the inbound playbook. As our engaged audience grows, more agencies partner with us, more third-party developers integrate their applications with our Software Platform, and more professionals complete our certification programs, all of which drive more businesses to adopt our Software Platform.

Our Growth Strategy

The key elements to our growth strategy are:

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

5

Increase Revenue from Existing Customers. With 41,593 total customers in more than 90 countries spanning many industries, we believe we have a significant opportunity to increase revenue from our existing customers. We plan to increase revenue from our existing customers by expanding their use of our Software Platform, selling to other parts of their organizations, cross-selling our sales products to existing marketing customers and vice versa through touchless or low touch in product purchases, and upselling additional offerings and features. Our scalable pricing model allows us to capture more spend as our customers grow, increase the number of their customers and prospects managed on our Software Platform, and require additional functionality available from our higher price tiers and add-ons, providing us with a substantial opportunity to increase the lifetime value of our customer relationships.

Keep Expanding Internationally. There is a significant opportunity for our Software Platform outside of the United States. As of December 31, 2017, approximately 39% of our total customers were located outside of the United States and these customers generated approximately 33% of our total revenue for the year ended December 31, 2017. We sell to those foreign customers from our U.S., European, and Asia Pacific based operations. We intend to grow our presence in international markets through additional investments in local sales, marketing and professional service capabilities, as well as by leveraging our Partner network. We opened our first international office in Dublin, Ireland focused on the European market in January 2013 and our second, third and fourth international offices focused on the Asia Pacific market in Sydney, Australia in August 2014, Singapore in October 2015, and Tokyo, Japan in July 2016. In July 2017, we opened a fifth international office in Berlin, Germany. We already have significant website traffic from regions outside the United States and we believe that markets outside the United States represent a significant growth opportunity.

Continue to Innovate and Expand Our Software Platform. Mid-market businesses are increasingly realizing the value of having an integrated marketing, sales and service platform. We believe we are well positioned to capitalize on this opportunity by introducing new products and applications to extend the functionality of our Software Platform. For example, in 2017 we launched a new HubSpot Sales Professional product tier with enhanced features such as artificial intelligence, advanced automation, and custom reporting, which enables growing teams to sell smarter, not harder. In addition, we added significant functionality to our core marketing, sales and CRM products throughout the year. The additional functionality includes: Content Strategy, an integrated content and search engine optimization, or SEO, tool that helps marketers adapt to the way modern search works and get more traffic with less content; Campaign Reporting, a powerful new set of reports that helps customers tie even their broadest marketing campaigns directly to the metrics that matter most: traffic, leads, and revenue; Smart List Retargeting, which allows companies with our Ads add-on to sync HubSpot lists to audiences in Facebook. This feature is intended to allow companies to retarget, nurture, and convert users dynamically based on HubSpot data. We also introduced a native integration with a leading e-commerce partner.

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

Our Products

All-in-one Software Platform

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

At the core of our Software Platform is a single inbound database of lead and customer information. This allows a complete view of lead and customer interactions across all of our integrated applications, giving our Software Platform substantial power. This integration makes it possible to personalize every aspect of the customer web

content, social media engagement and email messages across devices, including mobile. The integrated applications on our Software Platform have a common user interface, are accessed through a single login and are based on our inbound database.

HubSpot CRM Free

We introduced HubSpot CRM Free as a free client relationship management, or CRM, system that allows businesses to track their interactions with contacts and companies, manage their sales activities and report on their pipeline and sales. HubSpot CRM Free is a free product that can be used standalone, or with any version of Marketing Hub and/or Sales Hub. The features of HubSpot CRM Free are explained below.

• **Marketing Tools** — Collect leads, analyze activity on website, and measure success.

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

6

• **Sales Enablement** — Speed up sales process with email templates, tracking and notifications, plus stored documents and a meeting link for fast follow-up.

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

Marketing Hub

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

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

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

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

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

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

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

Content. Our content tools are part content management system and part personalization engine, enabling businesses to create new and edit existing web content while also personalizing their websites for different visitors and optimizing their websites to convert more visitors into leads and customers. Features include:

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

• **Website Pages** — A flexible system to build modern websites with responsive design, which means websites are dynamically optimized for desktops, laptops, tablets and smartphones without the need for maintaining different website versions for each device type. Build database-driven content that powers your website, and make one-click updates using content staging.

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

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

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

• **File Manager** — Integrated file storage and management that works across the Marketing Hub, and enables marketers access to an integrated library of over 60,000 Shutterstock images.

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

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

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

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

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

• **Content Strategy** — Evaluate site content and suggest topics based on relevance, competition, and popularity; organize relevant topics into clusters of content that define and elevate site influence in search engines.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sales Hub

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

- ✦ **Email Engagement Notifications** — Get real-time alerts when email messages are opened or clicked by potential customers to know when they are engaged with messages.
- ✦ **Sequences** — Schedule a series of personalized emails to be sent to a prospect all at once to eliminate reminders and extensive task lists.
- ✦ **Meetings** — Expose a sales representative’s calendar for prospects to book meetings at a time most convenient for them, without having to coordinate a preferred meeting time over email.
- ✦ **Calling** — Call prospects from HubSpot CRM and have the call logged automatically within HubSpot CRM.
- ✦ **Live Chat** — Chat with site visitors in real time. Prospects can be automatically rotated to the sales rep that owns their account for seamless conversations.
- ✦ **New Lead and Website Visit Alerts** — Receive real-time notifications of new leads assigned to a salesperson as well as notifications about when and where an existing lead visits a business’s website to help salespeople more easily engage with potential customers.
- ✦ **Email Templates and CRM Tracking** — Create and share email templates across teams. Access templates and send emails from Gmail, Outlook, or HubSpot CRM. All emails sent and received can be automatically logged in the CRM.
- ✦ **Sales Automation** — Automatically rotate incoming leads, create new deals and assign tasks.
- ✦ **Lead Scoring** — Keep track of the highest quality leads with a proprietary model that predicts each contact’s likelihood to close.
- ✦ **Send Time Optimization and Send Later** — Email prospects at the perfect time. Schedule emails directly from Gmail or Outlook. Select the recommended send time and HubSpot will send the email at the exact time that contact is most likely to engage.
- ✦ **Snippets** — Create shortcuts for commonly used phrases to save time drafting emails and taking notes.
- ✦ **Products** — Keep track of the actual products and services being sold. Create a custom catalogue and tie products to deals for more accurate reporting.
- ✦ **Documents** — Build a library of sales content. Easily share each document and track total views and overall engagement.

Integrations: HubSpot Connect

Businesses that use software outside of HubSpot can leverage HubSpot Connect, our ecosystem of certified third-party integrations. HubSpot connect makes it easy to find and install new or existing software solutions that compliment HubSpot.

- ✦ **A variety of integrations** — Over 100 certified integrations now live inside HubSpot connect, across a wide range of categories. This includes integrations with leading social media, email, sales, video, analytics, content and webinar tools.
- ✦ **Integration access** — HubSpot Connect integrations are free for all customers, however some are built specifically to integrate with the HubSpot CRM or paid Marketing tools.

Product Packaging

Pricing for Marketing Hub

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

Marketing Free is a basic set of conversion tools that are designed to be an introduction to HubSpot's marketing functionality.

9

Marketing Starter is a \$50/month extension of HubSpot Marketing Free that adds Lead Flows to HubSpot Marketing Free.

Marketing Basic is an entry level marketing suite that starts at \$2,400 per year. This plan includes our platform with applications such as blogging, landing pages, Social monitoring, email marketing, and analytics and reporting.

- Marketing Professional is our plan for professional marketers starting at \$9,600 per year. This plan includes the platform with all the applications included in Marketing Basic plus more advanced applications such as CRM integration, marketing automation, A/B testing, and content personalization.

Marketing Enterprise is an advanced plan for marketing teams starting at \$28,800 per year. This plan includes our platform with all the applications included in Marketing Pro, plus more sophisticated applications such as predictive lead scoring, tracking custom events and advanced reporting capabilities.

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

Add-Ons

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

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

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

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

Pricing for Sales Hub

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

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

Sales Starter is our plan for sales teams that includes additional features such as email sequencing and live chat to help sales team increase productivity, shorten deal cycles, and improve close rates for \$50/user/month.

Sales Professional is our plan for advanced sales teams that includes all the features of Sales Hub including artificial intelligence, advanced automation, and custom reporting for \$400/month for up to five users.

Our Services

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

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

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

Our Total Customers

As of December 31, 2017, we had 41,593 total customers in more than 90 countries, representing many industries. No single customer represented more than 1% of our revenue in 2017, 2016 or 2015.

Our Technology

We have 41,593 total customers that have chosen us as their marketing and/or sales platform, which we architected and built to be secure, highly distributed and highly scalable. Since our founding, we have embraced rapid, iterative product development lifecycles, cloud automation and open-source technologies, including big data platforms, to power marketing and sales programs and provide insights not previously possible or available.

Our Software Platform is a multi-tenant, single code-based, globally available software-as-a-service delivered through web browsers or mobile applications. Our commitment to a highly available, reliable and scalable platform for businesses of all sizes is accomplished through the use of these technologies.

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

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

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

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

Reliability. Customer data is distributed and processed across multiple data centers within a region to provide redundancy. We built our Software Platform on a distributed computing architecture with no single points of failure and we operate across data-center boundaries daily. In addition to data-center level redundancy, this architecture

supports multiple live copies of each data set along with snapshot capabilities for faster, point-in-time data recovery instead of traditional backup and restore methodologies.

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

Marketing and Sales

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

Inbound Marketing. Our marketing team focuses on inbound marketing and attracts an average of over 100,000 new leads per month through our industry-leading blog and other content, free tools, large social media following, high search engine rankings and personalized website and email content. In addition, we are generating leads for new and add-on product purchases through content and offers delivered through our Software Platform to existing customers. Inbound sources generated over 89% of our new customers and over 86% of new leads during 2017. We believe most companies of our size and scale typically have a far lower volume of lead generation with a much larger share of it coming from traditional advertising methods.

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

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

Employees and Culture

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

To that end, we published our “Culture Code,” a document codifying how we went about building a business that employees, customers and Partners alike truly love. Our Culture Code slide deck has been viewed approximately 3.6 million times on LinkedIn’s SlideShare and has become an important element of our recruiting efforts. The seven core principles of our Culture Code are:

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

We are passionate about creating an inclusive company culture where employees can do their best work. Our Culture Code shares our core values and beliefs, including HEART (Humility, Empathy, Adaptability, Remark-ability, and Transparency), an acronym we use to describe what we believe makes a great HubSpotter. By recruiting people with HEART, investing in their growth, and making culture a business priority, we’ve been named a great place to work

globally in 2017. This past year, HubSpot was named a Best Place to Work by Glassdoor, one of Boston Business Journal's Best Places to Work 2017, and a Best Workplace for Millennials by Fortune. We were also honored in a number of categories by Comparably's workplace awards in 2017, including Best CEOs, Best Companies for Women, Best Companies for Diversity, and Best Overall Company Culture. But, at the end of the day, we do not just talk about culture, we measure it, just as we do the rest of our business. We survey employees on a quarterly basis, making sure that our founders and executives review all the feedback, respond, and make adjustments when necessary.

As of December 31, 2017 we had 2,081 full-time employees. Of these employees, 1,504 are based in the United States, 410 are located in Ireland, 54 are located in Australia, 73 are located in Singapore, 16 are located in Japan and 24 are located in Germany.

Competition

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

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

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

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

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

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

Intellectual Property

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

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

Financial Information About Segments

We operate as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is regularly evaluated by the chief operating decision makers or CODMs, which are our chief executive officer and chief operating officer, in deciding how to allocate resources and assess performance. The CODMs evaluate our financial information and resources and assess the performance of these resources on a consolidated basis. Since we operate in one operating segment, all required financial segment information can be found in the consolidated financial statements. See Footnote 8 within the consolidated financial statements for information by geographic area.

Available Information

Edgar Filing: HUBSPOT INC - Form 10-K

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on or through our website at www.hubspot.com as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC.

The SEC also maintains a website, www.sec.gov, that contains reports and other information regarding issuers that file electronically with the SEC. The public may read and copy any files with the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling 1-800-SEC-0330. We are not, however, including the information contained on our website, or information that may be accessed through links on our website, as part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

Item 1A. RISK FACTORS

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

Risks Related to Our Business and Strategy

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

We generated net losses of \$39.7 million in 2017, \$45.6 million in 2016, and \$46.1 million in 2015. As of December 31, 2017, we had an accumulated deficit of \$286.1 million. We will need to generate and sustain increased revenue levels in future periods to become profitable, and, even if we do, we may not be able to maintain or increase our level of profitability. We intend to continue to expend significant funds to grow our marketing and sales operations, develop and enhance our inbound platform, scale our data center infrastructure and services capabilities and expand into new markets. Our efforts to grow our business may be more costly than we expect, and we may not be able to increase our revenue enough to offset our higher operating expenses. We may incur significant losses in the future for a number of reasons, including the other risks described in this Annual Report on Form 10-K, and unforeseen expenses, difficulties, complications and delays and other unknown events. If we are unable to achieve and sustain profitability, the market price of our common stock may significantly decrease.

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

We derive, and expect to continue to derive, a substantial portion of our revenue from the sale of subscriptions to our inbound platform. The market for inbound marketing and sales products is still evolving, and competitive dynamics may cause pricing levels to change as the market matures and as existing and new market participants introduce new types of point applications and different approaches to enable businesses to address their respective needs. As a result, we may be forced to reduce the prices we charge for our platform and may be unable to renew existing customer agreements or enter into new customer agreements at the same prices and upon the same terms that we have historically. In addition, our growth strategy involves a scalable pricing model (including “freemium” versions of our products) intended 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 amounts or for shorter contract lengths. Also, customers may choose not to renew their subscriptions for a variety of reasons, including an inability or failure on the part of a customer to create blogging, social media and other content necessary to realize the benefits of our platform. Our renewal rates may decline or fluctuate as a result of a number of factors, including limited customer resources, pricing changes, adoption and utilization of our platform and add-on applications by our customers, adoption of our new products, customer satisfaction with our platform, the acquisition of our customers by other companies and deteriorating general economic conditions. If our customers do not renew their subscriptions for our platform or decrease the amount they spend with us, our revenue will decline and our business will suffer.

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

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

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

Our competitors include:

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

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

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

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

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

Our head count and operations have grown substantially. For example, we had 2,081 full-time employees as of December 31, 2017, as compared with 1,597 as of December 31, 2016. We opened our first international office in Dublin, Ireland in January 2013, and additional international offices in Sydney, Australia in August 2014, in Singapore in October 2015, in Tokyo in July 2016 and in Berlin in July 2017. This growth has placed, and will continue to place, a significant strain on our management, administrative, operational and financial infrastructure. We anticipate further growth will be required to address increases in our product offerings and continued expansion. Our success will depend in part upon our ability to recruit, hire, train, manage and integrate a significant number of qualified managers, technical personnel and employees in specialized roles within our company, including in technology, sales and marketing. If our new employees perform poorly, or if we are unsuccessful in recruiting, hiring, training, managing and integrating these new employees, or retaining these or our existing employees, our business may suffer.

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

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

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

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

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

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

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

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

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

suffer.

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

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

16

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

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

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

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

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

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

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

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

inbound platform and provide effective ongoing support, our ability to sell additional functionality and services to, or to retain, existing customers may suffer and our reputation with existing or potential customers may be harmed.

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

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

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

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

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

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

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

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

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

There are inherent risks in integrating and managing acquisitions. If we acquire additional businesses, we may not be able to assimilate or integrate the acquired personnel, operations and technologies successfully or effectively manage the combined business following the acquisition and our management may be distracted from operating our business. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including: unanticipated costs or liabilities associated with the acquisition; incurrence of acquisition-related costs, which would be recognized as a current period expense; inability to generate sufficient revenue to offset acquisition or investment costs; the inability to maintain relationships with customers and partners of the acquired business; the difficulty of incorporating acquired technology and rights into our platform and of maintaining quality and security standards

consistent with our brand; delays in customer purchases due to uncertainty related to any acquisition; the need to integrate or implement additional controls, procedures and policies; challenges caused by distance, language and cultural differences; harm to our existing business relationships with business partners and customers as a result of the acquisition; the potential loss of key employees; use of resources that are needed in other parts of our business and diversion of management and employee resources; the inability to recognize acquired deferred revenue in accordance with our revenue recognition policies; and use of substantial portions of our available cash or the incurrence of debt to consummate the acquisition. Acquisitions also increase the risk of unforeseen legal liability, including for potential violations of applicable law or industry rules and regulations, arising from prior or ongoing acts or omissions by the acquired businesses which are not discovered by due diligence during the acquisition process. Generally, if an acquired business fails to meet our expectations, our operating results, business and financial condition may suffer. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our business, results of operations or financial condition.

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

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

A component of our growth strategy involves the further expansion of our operations and customer base internationally. We opened our first international office in Dublin, Ireland in January 2013 and we opened additional international offices in Sydney, Australia in August 2014, in Singapore in October 2015, in Tokyo in July 2016, and in Berlin in July 2017. These international offices focus primarily on sales, professional services and support. We also have a development team in Dublin, Ireland. Our current international operations and future initiatives will involve a variety of risks, including:

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

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

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

We currently serve the majority of our platform functions from third-party data center hosting facilities operated by Amazon Web Services and located in northern Virginia. In addition, we serve ancillary functions for our customers

from third-party data center hosting facilities operated by Rackspace located in Dallas, Texas, with a backup facility in Chicago, Illinois. Our operations depend, in part, on our third-party facility providers' abilities to protect these facilities against damage or interruption from natural disasters, such as earthquakes and hurricanes, 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On May 23, 2016, the European Parliament adopted a resolution and on July 8, 2016 the European Member State representatives approved the final version of the EU-US Privacy Shield as a successor to the Safe Harbor framework. As of August 1, 2016, interested companies have been permitted to register for the program. We are currently certified

to the EU-US Privacy Shield. There continue to be concerns about whether the EU-US Privacy Shield will face additional challenges. Until the remaining legal uncertainties regarding the future of the EU-US Privacy Shield are settled, we will continue to face uncertainty as to whether our efforts to comply with our obligations under European privacy laws will be sufficient. If we are investigated by a European data protection authority, we may face fines and other penalties. Any such investigation or charges by European data protection authorities could have a negative effect on our existing business and on our ability to attract and retain new customers.

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

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

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

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

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

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

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

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

Our platform and its underlying infrastructure are inherently complex and may contain material defects or errors. We release modifications, updates, bug fixes and other changes to our software several times per day, without traditional human-performed quality control reviews for each release. We have from time to time found defects in our software and may discover additional defects

in the future. We may not be able to detect and correct defects or errors before customers begin to use our platform or its applications. Consequently, we or our customers may discover defects or errors after our platform has been implemented. These defects or errors could also cause inaccuracies in the data we collect and process for our customers, or even the loss, damage or inadvertent release of such confidential data. We implement bug fixes and upgrades as part of our regular system maintenance, which may lead to system downtime. Even if we are able to implement the bug fixes and upgrades in a timely manner, any history of defects or inaccuracies in the data we collect for our customers, or the loss, damage or inadvertent release of confidential data could cause our reputation to be harmed, and customers may elect not to purchase or renew their agreements with us and subject us to service performance credits, warranty claims or increased insurance costs. The costs associated with any material defects or errors in our platform or other performance problems may be substantial and could materially adversely affect our operating results.

Risks Related to Intellectual Property

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

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

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

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

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

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

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

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

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

Risks Related to Government Regulation and Taxation

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

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

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

-

The Digital Millennium Copyright Act of 1998, or DMCA, provides recourse for owners of copyrighted material who believe that their rights under U.S. copyright law have been infringed on the Internet. Under the DMCA, based on our current business activity as an Internet service provider that does not own or control website content posted by our customers, we generally are not liable for infringing content posted by our customers or other third parties, provided that we follow the procedures for handling copyright infringement claims set forth in the DMCA.

Generally, if we receive a proper notice from, or on behalf, of a copyright owner alleging infringement of copyrighted material located on websites we host, and we fail to expeditiously remove or disable access to the allegedly infringing material or otherwise fail to meet the requirements of the safe harbor provided by the DMCA, the copyright owner may seek to impose liability on us. Technical mistakes in complying with the detailed DMCA take-down procedures could subject us to liability for copyright infringement.

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

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

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

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

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

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

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

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

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

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

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

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

Comprehensive Tax Reform Legislation Could Adversely Affect Our Business And Financial Condition.

The U.S. government has recently enacted comprehensive tax legislation that includes significant changes to the taxation of business entities, referenced herein as the Tax Reform Act. These changes include, among others, a permanent reduction to the corporate income tax rate, limiting interest deductions, allowing for the expensing of capital expenditures, and putting into effect the migration from a “worldwide” system of taxation to a territorial system. The overall impact of this tax reform is uncertain, and it is possible that our business and financial condition could be adversely affected. We continue to examine the impact this tax reform legislation may have on our business. We urge our shareholders to consult with their legal and tax advisors with respect to any such legislation and the potential tax consequences of investing in our ordinary shares.

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

As of December 31, 2017, we had federal and state net operating loss carryforwards due to prior period losses, which, if not utilized, will begin to expire in 2027 for federal purposes and 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. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, our ability to utilize net operating loss carryforwards or other tax attributes, such as research tax credits, in any taxable year may be further limited if we experience an ownership change. A Section 382 ownership change generally occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. Similar rules may apply under state tax laws. Future issuances of our stock could cause an ownership change. It is possible that an ownership change in connection with a future offering, or any future ownership change, could have a material effect on the use of our net operating loss carryforwards or other tax attributes, which could adversely affect our profitability. Net operating loss carryforwards incurred for periods beginning on or after January 1, 2018, are not subject to these limitations.

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

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

blacklisting entity's service or purchases its blacklist.

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

26

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

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

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

In addition, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, or the CAN-SPAM Act, establishes certain requirements for commercial email messages and specifies penalties for the transmission of commercial email messages that are intended to deceive the recipient as to source or content. The CAN-SPAM Act, among other things, obligates the sender of commercial emails to provide recipients with the ability to opt out of receiving future commercial emails from the sender. The ability of our customers' message recipients to opt out of receiving commercial emails may minimize the effectiveness of the email components of our inbound platform. In addition, certain states and foreign jurisdictions, such as Australia, Canada and the European Union, have enacted laws that regulate sending email, and some of these laws are more restrictive than U.S. laws. For example, some foreign laws prohibit sending unsolicited email unless the recipient has provided the sender advance consent to receipt of such email, or in other words has "opted-in" to receiving it. A requirement that recipients opt into, or the ability of recipients to opt out of, receiving commercial emails may minimize the effectiveness of our platform.

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

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

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

Risks Related to Our Operating Results and Financial Condition

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

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

- changes in spending on marketing and sales software by our current or prospective customers;
- pricing our inbound platform subscriptions effectively so that we are able to attract and retain customers without compromising our profitability;
- attracting new customers for both our marketing and sales software, increasing our existing customers' use of our platform and providing our customers with excellent customer support;
- customer renewal rates and the amounts for which agreements are renewed;
- global awareness of our thought leadership and brand;
- changes in the competitive dynamics of our market, including consolidation among competitors or customers and the introduction of new products or product enhancements;
- changes to the commission plans, quotas and other compensation-related metrics for our sales representatives;
- the amount and timing of payment for operating expenses, particularly research and development, sales and marketing expenses and employee benefit expenses;
- the amount and timing of costs associated with recruiting, training and integrating new employees while maintaining our company culture;
- our ability to manage our existing business and future growth, including increases in the number of customers on our platform and the introduction and adoption of our inbound platform in new markets outside of the United States;
- unforeseen costs and expenses related to the expansion of our business, operations and infrastructure, including disruptions in our hosting network infrastructure and privacy and data security;
- foreign currency exchange rate fluctuations; and
- general economic and political conditions in our domestic and international markets.

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

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

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

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

We offer our inbound platform primarily through a mix of monthly, quarterly and single-year subscription agreements and generally recognize revenue ratably over the related subscription period. As a result, much of the revenue we report in each quarter is derived from agreements entered into during prior months, quarters or years. In addition, we do not record deferred revenue beyond amounts invoiced as a liability on our balance sheet. A decline in new or

renewed subscriptions or marketing solutions agreements in any one quarter is not likely to be reflected immediately in our revenue results for that quarter. Such declines, however, would negatively affect our revenue and deferred revenue balances in future periods, and the effect of significant downturns in sales and market acceptance of our platform, and potential changes in our rate of renewals, may not be fully reflected in our results of operations until future periods. Our subscription model also makes it difficult for us to rapidly increase our total revenue and deferred revenue balance through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

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 2022 Notes or to repurchase the 2022 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”). Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the 2022 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 2022 Notes have the right to require us to repurchase their 2022 Notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the 2022 Notes to be repurchased, plus accrued and unpaid interest, if any. Upon conversion of the 2022 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 2022 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 2022 Notes surrendered therefor or 2022 Notes being converted. In addition, our ability to repurchase the 2022 Notes or to pay cash upon conversions of the 2022 Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase 2022 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 2022 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 2022 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 2022 Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the 2022 Notes is triggered, holders of 2022 Notes will be entitled to convert the 2022 Notes at any time during specified periods at their option. If one or more holders elect to convert their 2022 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 2022 Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the 2022 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 2022 Notes, could have a material effect on our reported financial results.

Under Financial Accounting Standards Board 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 2022 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 2022 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 2022 Notes, which reduces their initial carrying value. The carrying value of the 2022 Notes, net of the discount recorded, will be accreted up to the principal amount of the 2022 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 2022 Notes.

In addition, under certain circumstances, convertible debt instruments (such as the 2022 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 2022 Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the 2022 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. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the 2022 Notes, then our diluted earnings per share would be adversely affected.

We are exposed to fluctuations in currency exchange rates.

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

Risks Related to Our Common Stock

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

The trading prices of the securities of technology companies, including providers of software via the cloud-based model, have been highly volatile. Since shares of our common stock were sold in our initial public offering in October 2014 at a price of \$25.00 per share, our stock price has ranged from \$25.79 to \$93.53, through December 31, 2017. 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;

30

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 2022 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.

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

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

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

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

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

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

Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds to invest in future growth opportunities. Additional financing may not be available on favorable terms, if at all. If adequate funds are not available on acceptable terms, we may be unable to invest in future growth opportunities, which could seriously harm our business and operating results. If we incur debt, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. Furthermore, if we issue equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. The 2022 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.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

32

ITEM 2. Properties

We occupy approximately 280,000 square feet of office space in Cambridge, Massachusetts pursuant to lease agreements that expire through 2027. We also maintain offices in Portsmouth, New Hampshire, Dublin, Ireland, Sydney, Australia, Singapore, Japan, and Berlin. We believe that our current facilities are suitable and adequate to meet our current needs. We intend to add new facilities or expand existing facilities as we add employees, and we believe that suitable additional or substitute space will be available as needed to accommodate any such expansion of our operations.

ITEM 3. Legal Proceedings

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

ITEM 4. Mine Safety Disclosures

Not Applicable.

PART II

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

Market Information for Common Stock

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

	2017	
	High	Low
First quarter	\$66.10	\$46.72
Second quarter	\$78.50	\$58.45
Third quarter	\$84.15	\$63.00
Fourth quarter	\$93.53	\$73.15

	2016	
	High	Low
First quarter	\$55.98	\$27.00
Second quarter	\$53.08	\$39.01
Third quarter	\$59.97	\$41.71
Fourth quarter	\$59.20	\$44.90

As of February 8, 2018, we had 51 holders of record of our common stock. The actual number of shareholders is greater than this number of record holders, and includes shareholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include shareholders whose shares may be held in trust by other entities.

Dividends

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain future earnings to fund development and growth of our business, and do not anticipate declaring or paying cash dividends in the foreseeable future. Any future determination to pay dividends will be, subject to applicable law, at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial condition, contractual restrictions, and capital requirements.

Performance Graph

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

Edgar Filing: HUBSPOT INC - Form 10-K

The following graph shows a comparison from October 9, 2014 (the date our common stock commenced trading on the NYSE) through December 31, 2017 of the cumulative total return for our common stock, the NASDAQ Computer Index and the S&P 500 Index. The graph assumes \$100 was invested in each of the Company's common stock, the NASDAQ Computer Index and the S&P 500 Index of the market close on October 9, 2014. Such returns are based on historical results and are not intended to suggest future performance.

	10/9/2014	12/31/2014	12/31/2015	12/31/2016	12/31/2017
HubSpot	100	112	187	156	294
S&P 500 Index	100	107	106	116	139
Nasdaq Computer Index	100	107	113	127	177

Recent Sales of Unregistered Securities

None.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Securities Authorized for Issuance Under Equity Compensation Plans

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

Outstanding Convertible Senior Notes, Convertible Note Hedge, and Warrant

In May 2017, we issued \$400.0 million aggregate principal amount of 0.25% convertible senior notes (the "2022 Notes") due June 1, 2022. 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) a total of approximately 4.2 million shares of the Company's common stock at a price of approximately \$94.77 per share. In addition, the Company sold warrants to certain bank counterparties whereby the holders of the warrants have the option to purchase initially (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. See (Note 7) in the Notes to the Consolidated Financial Statements for more information.

ITEM 6. Selected Consolidated Financial Data

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

The following selected consolidated statements of operations data for the years ended December 31, 2017, 2016, and 2015, and the consolidated balance sheet data as of December 31, 2017 and 2016, have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for the years ended December 31, 2014 and 2013 and the consolidated balance sheet data as of December 31, 2015, 2014 and 2013 have been derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue:					
Subscription	\$356,727	\$254,775	\$167,920	\$106,319	\$70,819
Professional services and other	18,885	16,192	14,023	9,557	6,815
Total revenue	375,612	270,967	181,943	115,876	77,634
Cost of revenue:					
Subscription (1)	51,563	41,182	32,271	23,655	18,745
Professional services and other (1)	24,166	20,683	15,652	11,425	8,759
Total cost of revenue	75,729	61,865	47,923	35,080	27,504
Total gross profit	299,883	209,102	134,020	80,796	50,130
Operating expenses:					
Research and development (1)	70,373	45,997	32,457	25,638	15,018
Sales and marketing (1)	212,859	162,647	112,629	78,809	53,158
General and administrative (1)	56,787	45,120	35,408	24,958	16,204
Total operating expenses	340,019	253,764	180,494	129,405	84,380
Loss from operations	(40,136)	(44,662)	(46,474)	(48,609)	(34,250)
Other (expense) income					
Interest income	3,837	854	390	46	34
Interest expense	(13,181)	(265)	(185)	(322)	(20)
Other (expense) income	(559)	(956)	628	564	(38)
Total other (expense) income	(9,903)	(367)	833	288	(24)
Net loss before income tax benefit (expense)	(50,039)	(45,029)	(45,641)	(48,321)	(34,274)
Income tax benefit (expense)	10,325	(533)	(412)	92	—
Net loss	(39,714)	(45,562)	(46,053)	(48,229)	(34,274)
Preferred stock accretion	—	—	—	331	54
Net loss attributable to common stockholders	\$(39,714)	\$(45,562)	\$(46,053)	\$(48,560)	\$(34,328)
Net loss per common share, basic and diluted (2)	\$(1.08)	\$(1.29)	\$(1.39)	\$(4.20)	\$(6.71)
Weighted average common shares used in computing					
basic and diluted net loss per common share (2)	36,827	35,197	33,222	11,562	5,113

(1) Stock-based compensation included in the consolidated statements of operations data above was as follows:
36

Edgar Filing: HUBSPOT INC - Form 10-K

	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Cost of revenue:					
Subscription	\$658	\$512	\$341	\$128	\$50
Professional services and other	2,327	1,640	1,216	498	211
Research and development	12,816	8,828	6,327	6,190	691
Sales and marketing	19,016	13,352	7,658	5,596	1,194
General and administrative	12,500	8,343	5,766	3,946	1,318
Total stock-based compensation	\$47,317	\$32,675	\$21,308	\$16,358	\$3,464

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

	As of December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents, and investments	\$535,737	\$150,068	\$145,117	\$123,721	\$12,643
Working capital, excluding deferred revenue	561,085	144,296	118,854	130,886	13,803
Total assets	712,175	259,755	220,379	174,858	50,559
Deferred revenue	139,157	96,597	65,139	41,305	24,906
Convertible senior notes	298,447	—	—	—	—
Total liabilities	501,815	141,055	98,671	64,159	42,514
Total redeemable convertible preferred stock	—	—	—	—	101,293
Total stockholders' equity (deficit)	\$210,360	\$118,700	\$121,708	\$110,699	\$(93,248)

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

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

Company Overview

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

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

While our Software Platform can scale to the enterprise, we focus on selling to mid-market businesses because we believe we have significant competitive advantages attracting and serving them. We efficiently reach these businesses at scale through our proven inbound go-to-market approach and our marketing agency and sales partners, which we refer to as Partners. Our Software Platform is particularly suited to serving the needs of mid-market business-to-business companies. These mid-market businesses seek an integrated, easy to implement and easy to use solution to reach customers and compete with organizations that have larger marketing and sales budgets. As of December 31, 2017, we had 41,593 total customers of varying sizes in more than 90 countries, representing almost every industry.

Our Software Platform is a multi-tenant, single code-based and globally available software-as-a-service product delivered through web browsers or mobile applications. We sell our Software Platform on a subscription basis and generated revenue of \$375.6 million in 2017, \$271.0 million in 2016, and \$181.9 million in 2015, representing year-over-year increases of 39% in 2017 and 49% in 2016. We had net losses of \$39.7 million in 2017, \$45.6 million in 2016, and \$46.1 million in 2015, primarily due to investments in our growth.

We derive most of our revenue from subscriptions to our cloud-based Software Platform and related professional services, which consist of customer on-boarding and training services. Subscription revenue accounted for 95% of our total revenue for the year ended December 31, 2017, 94% of our total revenue for the year ended December 31, 2016, and 92% of our total revenue in the year ended December 31, 2015. We sell multiple product plans at different base prices on a subscription basis, each of which includes our core Software Platform and integrated applications to meet the needs of the various customers we serve. Customers pay additional fees if the number of contacts stored and

tracked in the customer's database exceeds specified thresholds. We generate additional revenue based on the purchase of additional subscriptions, purchase of additional products, purchases of our add-on products and the number of account users, subdomains and website visits. Substantially all of our customers' subscriptions are one year or less in duration.

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

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 platform Professional services and other revenue accounted for 5% of total revenue for the year ended December 31, 2017, 6% of total revenue for the year ended December 31, 2016 and 8% of our total revenue for the year ended December 31, 2015. 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 platform by existing and new customers, significant competition from other providers of marketing and sales 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 Software Platform within existing customers, develop new products and applications to extend the functionality of our Software 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 Software 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 do not expect to be profitable in the near term.

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

Key Business Metrics

The following key business metrics are presented in this Annual Report on Form 10-K or in our press release announcing our financial results which is furnished on Form 8-K. We use these key business metrics to evaluate our business, measure our performance, identify trends affecting our business and results of operations, formulate financial projections and make strategic decisions. During the first quarter of 2017, our paid sales product business became a more significant part of our product offerings. To reflect this development, for the periods beginning with the first quarter of 2017, our key business metrics included our paid sales product customers and revenue as described below. These key business metrics may be calculated in a manner different than similar key business metrics used by other companies.

	Year Ended December 31,		
	2017	2016	2015
Total customers	41,593	28,097	*
Total average subscription revenue per customer	\$10,180	*	*
Total subscription dollar retention rate	100.5 %	*	*
Marketing customers	*	23,226	18,116
Marketing average subscription revenue per customer	*	\$12,197	\$10,419
Marketing subscription dollar retention rate	*	98.5 %	99.2 %

*In 2017 we changed the definitions of our key business metrics to include our paid sales product customers and revenue. We do not have historical comparisons for the new key business metrics with the exception of total customers for the year ended December 31, 2016 as this was our beginning total customers for 2017 and, we do not report Marketing Customers, Marketing Average Subscription Revenue per Customer and Marketing Subscription Dollar Retention Rate on a standalone basis for the fiscal year ended December 31, 2017. In the sections below comparisons between the years ended December 31, 2017 and December 31, 2016 were performed using our new key business metrics. Comparisons between the years ended December 31, 2016 and December 31, 2015 were performed using our historical key business metrics.

Total Customers. We believe that our ability to increase our customer base is an indicator of our market penetration and growth of our business as we continue to expand our sales force and invest in marketing efforts. We define our total customers at the end of a particular period as the number of business entities or individuals with one or more paid subscriptions to our sales or marketing platforms, either paid directly or through a Partner. We do not include in total customers business entities or individuals with one or more paid subscriptions solely for our legacy HubSpot Sales (\$10) product. A single customer may have separate paid subscriptions for separate websites, sales licenses or seats, or our marketing and sales platforms, but we count these as one customer if certain customer-provided information such as company name, URL, or email address indicate that these subscriptions are managed by the same business entity or individual.

Marketing Customers. Our marketing customers are a sub-set of our total customers. We define marketing customers at the end of a particular period as our total customers, excluding business entities or individuals that have only paid for a subscription to our sales platform.

Total Average Subscription Revenue per Customer. We believe that our ability to increase the total average subscription revenue per customer is an indicator of our ability to grow the long-term value of our existing customer relationships. We define total average subscription revenue per customer during a particular period as subscription revenue, excluding revenue from our legacy HubSpot Sales (\$10) product, from our total customers during the period divided by the average total customers during the same period.

Marketing Average Subscription Revenue per Customer. We define marketing average subscription revenue per customer during a particular period as subscription revenue from our marketing customers during the period, divided by our average marketing customers during the same period.

Total Subscription Dollar Retention Rate. We believe that our ability to retain and expand a customer relationship is an indicator of the stability of our revenue base and the long-term value of our customers. We assess our performance in this area using a metric we refer to as our Total Subscription Dollar Retention Rate. We compare the aggregate Total Contractual Monthly Subscription Revenue of our total customer base as of the beginning of each month, which we refer to as Total Retention Base Revenue, to the aggregate Total Contractual Monthly Subscription Revenue of the same group of customers at the end of that month, which we refer to as Total Retained Subscription Revenue. We define Total Contractual Monthly Subscription Revenue as the total amount of subscription fees contractually committed to be paid for a full month under all of our total customer agreements, excluding any commissions owed to our Partners. We do not include in Total Contractual Monthly Subscription Revenue any subscription fees contractually committed to be paid by business entities or individuals with subscriptions for our legacy HubSpot Sales (\$10) product. Our Total Subscription Dollar Retention Rate for a given period is calculated by first dividing Total Retained Subscription Revenue by Total Retention Base Revenue for each month in the period, calculating the weighted average of these rates using the Total Retention Base Revenue for each month in the period, and then annualizing the resulting rates.

Marketing Subscription Dollar Retention Rate. Our marketing subscription dollar retention rate for a given period is calculated by first dividing Total Retained Marketing Subscription Revenue by Total Retention Base Marketing Revenue for each month in the period, calculating the weighted average of these rates using the Total Retention Base Marketing Revenue for each month in the period, and then annualizing the resulting rates. We compare the aggregate Total Contractual Monthly Marketing Subscription Revenue of our marketing customers as of the beginning of each month, which we refer to as Total Retention Base Marketing Revenue, to the aggregate Total Contractual Monthly Marketing Subscription Revenue of the same group of marketing customers at the end of that month, which we refer to as Total Retained Marketing Subscription Revenue. We define Total Contractual Monthly Marketing Subscription Revenue as the total amount of subscription fees contractually committed to be paid for a full month under all of our marketing customer agreements, excluding any commissions owed to our Partners.

Key Components of Consolidated Statements of Operations

Revenue

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

Subscription based revenue is derived from customers using our Software Platform for their inbound marketing and sales needs. Our Software Platform includes integrated applications that allow businesses to manage social media,

search engine optimization, blogging, website content management, marketing automation, email, sales productivity, CRM, analytics and reporting. Substantially all of our customers' subscriptions are one year or less in duration. Subscriptions are non-cancelable and are billed in advance on various schedules. All subscription fees that are billed in advance of service are recorded in deferred revenue. Subscription based revenue is recognized net of consideration paid to Partners when the Partner purchases the subscription directly from us, as in these instances our customer is the Partner and our remaining obligations are to the Partner.

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

Cost of Revenue and Operating Expenses

Cost of Revenue

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

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

We expect that cost of subscription and professional services and other revenue will increase in absolute dollars as we continue to invest in growing our business. Over time, we expect to gain benefits of scale associated with our costs of hosting our Software Platform relative to subscription revenues, resulting in improved subscription gross margin. We expect professional services and other margins to range from a moderate loss to breakeven for the foreseeable future.

Research and Development

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

Sales and Marketing

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

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

General and Administrative

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

Other Income (Expense)

Other income (expense) includes interest income and expense and the impact of foreign currency transaction gains and losses associated with monetary assets and liabilities. The additions of our international offices in Dublin, Ireland in 2013, Sydney, Australia in 2014, Singapore in 2015, Tokyo, Japan in 2016, and Berlin, Germany in 2017 have increased our exposure to foreign currency fluctuations.

Income Tax benefit (expense)

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

Results of Operations

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

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Revenue:			
Subscription	\$356,727	\$254,775	\$167,920
Professional services and other	18,885	16,192	14,023
Total revenue	375,612	270,967	181,943
Cost of revenue:			
Subscription	51,563	41,182	32,271
Professional services and other	24,166	20,683	15,652
Total cost of revenue	75,729	61,865	47,923
Gross profit	299,883	209,102	134,020
Operating expenses:			
Research and development	70,373	45,997	32,457
Sales and marketing	212,859	162,647	112,629
General and administrative	56,787	45,120	35,408
Total operating expenses	340,019	253,764	180,494
Loss from operations	(40,136)	(44,662)	(46,474)
Other (expense) income:			
Interest income	3,837	854	390
Interest expense	(13,181)	(265)	(185)
Other (expense) income	(559)	(956)	628
Total other (expense) income	(9,903)	(367)	833
Loss before income tax benefit (expense)	(50,039)	(45,029)	(45,641)
Income tax benefit (expense)	10,325	(533)	(412)
Net loss	\$(39,714)	\$(45,562)	\$(46,053)

Edgar Filing: HUBSPOT INC - Form 10-K

	Year Ended December 31,		
	2017	2016	2015
Revenue:			
Subscription	95 %	94 %	92 %
Professional services and other	5	6	8
Total revenue	100	100	100
Cost of revenue:			
Subscription	14	15	18
Professional services and other	6	8	9
Total cost of revenue	20	23	26
Gross profit	80	77	74
Operating expenses:			
Research and development	19	17	18
Sales and marketing	57	60	62
General and administrative	15	17	19
Total operating expenses	91	94	99
Loss from operations	(11)	(16)	(26)
Total other (expense) income	(3)	—	—
Loss before income tax benefit (expense)	(13)	(17)	(25)
Income tax benefit (expense)	3	—	—
Net loss	(11)%	(17)%	(25)%

*Percentages are based on actual values. Totals may not sum due to rounding.
Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Revenue

	Year Ended December 31,		Change	
	2017	2016	Amount	%
	(dollars in thousands)			
Subscription	\$356,727	\$254,775	\$101,952	40%
Professional services and other	18,885	16,192	2,693	17%
Total revenue	\$375,612	\$270,967	\$104,645	39%

Subscription revenue increased 40% during 2017 due to an increase throughout the year in total customers, which grew from 28,097 as of December 31, 2016 to 41,593 as of December 31, 2017. Total average subscription revenue per customer decreased from \$10,689 for the three months ended December 31, 2016 to \$10,255 for the three months ended December 31, 2017. The growth in total customers was primarily driven by our increased sales representative capacity to meet market demand. The decrease in average subscription revenue per customer was driven primarily by our continued adoption of our “freemium” model which allows us to add new customers through our lower cost sales and marketing products.

Edgar Filing: HUBSPOT INC - Form 10-K

The 17% increase in professional services and other revenue resulted primarily from increased delivery of on-boarding and training services related to increase in new subscriptions sold.

Total Cost of Revenue, Gross Profit and Gross Margin

	Year Ended December		Change	
	2017	2016	Amount	%
	(dollars in thousands)			
Total cost of revenue	\$75,729	\$61,865	\$13,864	22%
Gross profit	299,883	209,102	90,781	43%
Gross margin	80	% 77	%	

Edgar Filing: HUBSPOT INC - Form 10-K

Total cost of revenue increased 22% during 2017 primarily due to an increase in subscription and hosting costs, employee-related costs, amortization of developed technology, and allocated overhead expenses. The increase in gross margin was primarily driven by improved leverage of our hosting costs relative to growth in subscription revenue.

	Year Ended		Change	
	2017	2016	Amount	%
	(dollars in thousands)			
Subscription cost of revenue	\$51,563	\$41,182	\$10,381	25%
Percentage of subscription revenue	14	% 16	%	

The increase in subscription cost of revenue for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to the following:

	Change (in thousands)
Subscription and hosting costs	\$ 4,661
Employee-related costs	3,151
Capitalized software amortization	1,627
Allocated overhead expenses	942
	\$ 10,381

Subscription and hosting costs increased due to growth in our total customer base from 28,097 at December 31, 2016 to 41,593 at December 31, 2017. Employee-related costs increased as a result of increased headcount as we continue to grow our customer support organization to support our customer growth and improve service levels and offerings. Amortization of capitalized software development costs increased due to the increased number of developers working on our software platform as we continue to develop new products and increased functionality. Allocated overhead expenses increased due to expansion of our leased space and infrastructure as we continue to grow our business and expand headcount.

	Year Ended		Change	
	2017	2016	Amount	%
	(dollars in thousands)			
Professional services and other cost of revenue	\$24,166	\$20,683	\$3,483	17%
Percentage of professional services and other revenue	128	% 128	%	

The increase in professional services and other cost of revenue for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 2,599
Allocated overhead expenses	884
	\$ 3,483

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

Research and Development

	Year Ended December 31,		Change	
	2017	2016	Amount	%
	(dollars in thousands)			
Research and development	\$70,373	\$45,997	\$24,376	53%
Percentage of total revenue	19	% 17	%	

Edgar Filing: HUBSPOT INC - Form 10-K

The increase in research and development expense for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 21,370
Allocated overhead expenses	3,006
	\$ 24,376

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 platform. Allocated overhead expense increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount.

Sales and Marketing

	Year Ended December 31,		Change	
	2017	2016	Amount	%
	(dollars in thousands)			
Sales and marketing	\$212,859	\$162,647	\$50,212	31%
Percentage of total revenue	57	% 60	%	

The increase in sales and marketing expense for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 30,632
Partner commissions	8,206
Allocated overhead expense	6,243
Marketing programs	5,131
	\$ 50,212

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

General and Administrative

	Year Ended		Change	
	December 31, 2017	2016	Amount	%
	(dollars in thousands)			
General and administrative	\$56,787	\$45,120	\$11,667	26%
Percentage of total revenue	15	% 17	%	

The increase in general and administrative expense for the year ended December 31, 2017 compared to the year ended December 31, 2016 was primarily due to the following:

	Change (in thousands)
Employee-related costs	\$ 9,041
Customer credit card fees	1,106
Professional fees	900
Allocated overhead expense	620
	\$ 11,667

Edgar Filing: HUBSPOT INC - Form 10-K

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. Customer credit card fees increased due to increased customer transactions as we continue to grow our business. Professional fees increased due to increased accounting, legal and consulting costs due to growth in the business. Allocated overhead expenses increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount.

Other Expense

	Year Ended		Change	
	December 31,	2016	Amount	%
	2017			
	(dollars in thousands)			
Interest income	\$3,837	\$854	\$2,983	349 %
Percentage of total revenue	1	%	*	
Interest expense	\$(13,181)	\$(265)	\$(12,916)	4874%
Percentage of total revenue	(4)%	*	
Other expense	\$(559)	\$(956)	\$397 (42)%
Percentage of total revenue	*	*		

*not meaningful

Interest income primarily consists of interest earned on invested cash and cash equivalents balances and investments. The increase is primarily due to the increase in amount of investment holdings with the proceeds received from the 2022 Notes. Interest expense primarily consists amortization of the debt discount and issuance costs related to the 2022 Notes that is recorded as interest expense, contractual interest expense on the 2022 Notes, and interest on capital leases. The increase was primarily due to amortization of the debt discount and issuance costs related to the 2022 Notes that were issued during 2017. Other expense primarily consists of the impact of foreign currency transaction gains and losses associated with monetary assets and liabilities. The decrease was primarily due to exchange rate fluctuations.

Income Tax benefit (expense)

	Year Ended		Change	
	December 31,	2016	Amount	%
	2017			
	(dollars in thousands)			
Income tax benefit (expense)	\$10,325	\$(533)	\$10,858	(2037)%
Effective tax rate	(21)%	1	%

Income tax benefit (expense) consists of current and deferred taxes for U.S. and foreign income taxes. The increase in the income tax benefit was primarily due to the deferred tax impact of the acquisition of a business and the issuance of

the 2022 Notes. For more information on the tax implications of the acquisition of a business and the 2022 Notes, refer to Notes 5 and 7 of the consolidated financial statements appearing elsewhere in this Annual Report Form 10-K. On December 22, 2017, tax legislation was enacted which included lowering the U.S. corporate income tax rate to 21% effective in 2018. We remeasured certain deferred tax assets and liabilities based on the tax rates at which they are expected to reverse in the future, which is generally 21%. As we have a full valuation allowance on US deferred assets, the allowance was adjusted accordingly based on the remeasured deferred tax asset and liability position. As a result, the legislation had a limited impact on our income tax benefit (expense).

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

Revenue

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

Edgar Filing: HUBSPOT INC - Form 10-K

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

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

Total Cost of Revenue, Gross Profit and Gross Margin

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

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

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

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

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

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

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

Edgar Filing: HUBSPOT INC - Form 10-K

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

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

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

Research and Development

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

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

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

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

Sales and Marketing

	Year Ended December		Change	
	31,	2015	Amount	%
	2016			
	(dollars in thousands)			
Sales and marketing	\$162,647	\$112,629	\$50,018	44%
Percentage of total revenue	60	% 62	%	

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

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

Edgar Filing: HUBSPOT INC - Form 10-K

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

General and Administrative

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

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

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

Employee-related costs increased as a result of increased headcount as we continue to grow our business and require additional personnel to support our expanded operations including infrastructure and controls required for being a public company. Allocated overhead expenses increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount. Customer credit card fees increased due to increased customer transactions as we continue to grow our business.

Other (Expense) Income

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

* not meaningful

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

Income Tax Expense

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

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

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 offering.

The following table shows cash and cash equivalents, working capital, net cash and cash equivalents provided by (used in) operating activities, net cash and cash equivalents used in investing activities, and net cash and cash equivalents provided by financing activities for the years ended December 31, 2017, 2016 and 2015:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Cash and cash equivalents	\$87,680	\$59,702	\$55,580
Working capital	424,205	48,870	54,447
Net cash and cash equivalents provided by (used in)			
operating activities	49,614	19,366	(423)
Net cash and cash equivalents used in investing activities	(401,197)	(22,957)	(104,104)
Net cash and cash equivalents provided by financing			
activities	376,806	8,473	36,939

Our cash and cash equivalents at December 31, 2017 was held for working capital purposes. We believe our working capital is sufficient to support our operations for at least the next 12 months. At December 31, 2017, \$27.9 million of our cash and cash equivalents was held in accounts outside the United States. At December 31, 2017, undistributed foreign earnings of approximately \$6.9 million have been taxed due to a one-time transition tax on previously undistributed foreign earnings. For any future foreign earnings, the Company will generally be free of additional U.S. federal tax consequences due to a dividends received deduction implemented as part of the move to a territorial tax system for foreign subsidiary earnings. Additionally, our current plans do not demonstrate a need to repatriate undistributed earnings to fund our U.S. operations.

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

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

Net cash and cash equivalents provided by operating activities during the year ended December 31, 2017 primarily reflected our net loss of \$39.7 million, deferred income tax benefit of \$11.5 million, and accretion of bond discount of \$1.6 million offset by non-cash expenses that included \$15.8 million of depreciation and amortization, \$47.3 million in stock-based compensation, \$5.0 million of non-cash rent expense and \$12.4 million of amortization of debt discount and issuance costs. Working capital sources of cash and cash equivalents primarily included a \$39.0 million increase in deferred revenue primarily resulting from the growth in the number of customers invoiced during the period and a \$8.2 million increase in accrued expenses, a \$3.6 million increase in deferred rent related to a tenant improvement allowance received and a \$1.1 million increase in accounts payable as a result of increased expense related to overall growth of the company. These sources of cash and cash equivalents were offset by a \$20.2 million increase in accounts receivable as a result of increased billings to customers consistent with the overall growth of the business, a \$5.6 million increase in prepaid expenses and other assets, and a \$4.0 million increase in deferred

commissions.

Net cash and cash equivalents provided by operating activities during the year ended December 31, 2016 primarily reflected our net loss of \$45.6 million, offset by non-cash expenses that included \$11.2 million of depreciation and amortization, \$32.7 million in stock-based compensation, \$0.6 million of amortization of bond premium, and \$4.0 million of non-cash rent expense. Working capital sources of cash and cash equivalents primarily included a \$32.3 million increase in deferred revenue primarily resulting from the growth in the number of customers invoiced during the period and a \$4.0 million increase in accrued expenses, and a \$1.0 million increase in accounts payable as a result of increased expense related to overall growth of the Company. These sources of cash and cash equivalents were offset by a \$14.1 million increase in accounts receivable as a result of increased billings to customers consistent with the overall growth of the business, and a \$6.1 million increase in prepaid expense related to growth of the company.

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

50

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

Net Cash and Cash Equivalents Used in Investing Activities

Our investing activities have consisted primarily of purchases and maturities of investments, property and equipment purchases, the restriction of cash associated with certain landlord guarantees for our leases, an acquisition of a business and purchase of technology, 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 year ended December 31, 2017 consisted primarily of \$890.0 million of purchases of investments, \$20.3 million of purchased property and equipment, \$7.1 million of capitalized software development costs, \$9.4 million for the acquisition of a business and purchase of technology, \$3.5 million related to the purchase of strategic investments and \$4.6 million increase in restricted cash related to our leased facilities. These uses of cash were offset by \$533.7 million received related to the maturity of investments.

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

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

Net Cash and Cash Equivalents Provided by Financing Activities

Our financing activities have consisted primarily of our stock offerings, the various components of our 2022 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 capital lease obligations.

For the year ended December 31, 2017, cash and cash equivalents provided by financing activities consisted primarily \$389.2 million of net proceeds from the issuance of the 2022 Notes, \$58.9 million of proceeds from the issuance of warrants related to the 2022 Notes, and \$13.1 million of proceeds related to issuance of common stock under stock plans. These sources of cash were offset by \$78.9 million used for the purchase of a note hedge related to 2022 Notes, \$4.4 million used for payment of employee taxes related to the net share settlement of stock-based awards and \$1.1 million used for repayments of capital leases.

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

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

Critical Accounting Policies and Estimates

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

Revenue Recognition

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

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

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

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

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

Capitalized Software Development Costs

Software development costs consist of certain payroll and stock compensation costs incurred to develop functionality for our software and sales and billing platforms, as well as certain upgrades and enhancements that are expected to result in enhanced functionality. We capitalize certain software development costs for new offerings as well as upgrades to our existing software platforms. We amortize these development costs over the estimated useful life of two to five years on a straight-line basis. We believe there are two key estimates within the capitalized software balance, which are the determination of the useful life of the software and the determination of the amounts to be capitalized.

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

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

Stock-Based Compensation

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

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

The following table summarizes the assumptions, other than fair value of our common stock, relating to our stock options granted in the years ended December 31, 2017, 2016, and 2015:

	Year Ended December 31,		
	2017	2016	2015
Dividend yield	—	—	—
	39.4	38.0	43.0
	-	-	-
Expected volatility (%)	43.7	41.0	51.6

	1.74	1.38	1.36
	-	-	-
Risk-free interest rate (%)	2.09	1.41	1.53
	5.18	5.08	6.18
	-	-	-
Expected term (years)	6.21	6.21	6.22

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

Goodwill Impairment

Goodwill represents the excess of the cost of an acquired entity over the net fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but rather is assessed for impairment at least annually. We performed our annual impairment assessment on November 30, 2017. We operate under one reporting unit and as a result, evaluate goodwill impairment based on our fair value as a whole.

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

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

When assessing goodwill for impairment for the year ended December 31, 2017, we decided to use the two-step quantitative analysis. We determined our enterprise value at the measurement date by using our market capitalization. Based on the results of our most recent annual assessment performed on November 30, 2017, we concluded that the fair value of our reporting unit significantly exceeded its carrying amount and there was no impairment of goodwill.

Strategic Investments

We hold strategic investments consisting of non-controlling equity investments in privately held companies. These investments without readily determinable fair values for which the Company does not have the ability to exercise significant influence are accounted for using the cost method of accounting. Under the cost method of accounting, the non-marketable securities are carried at cost and are adjusted only for other-than-temporary impairments, certain distributions and additional investments. Fair value is not estimated for non-marketable equity securities if there are no identified events or changes in circumstances that may have an effect on the fair value of the investment.

Contractual Obligations and Commitments

Contractual obligations are cash that we are obligated to pay as part of certain contracts that we have entered during our course a business. Certain of our leases contain optional termination dates. The table below only includes payments up to the optional termination date. If we were to extended leases beyond the optional termination date the future commitments would increase by approximately \$31.6 million. Below is a table that shows the projected outlays as of December 31, 2017:

	Payments due in:				
	Less				More
	than	1-3	3-5		than
	Total	1 Year	Years	Years	5 Years
	(in thousands)				
Capital lease obligations	\$1,057	\$745	\$312	\$—	\$—

Edgar Filing: HUBSPOT INC - Form 10-K

Operating leases obligations	201,900	19,345	39,749	43,163	99,643
Vendor commitments	31,244	16,327	12,957	1,307	653
Total	\$234,201	\$36,417	\$53,018	\$44,470	\$100,296

Letters of Credit

As of December 31, 2017, we had a total of \$4.8 million in letters of credit outstanding substantially in favor of certain landlords for office space. These irrevocable letters of credit, which are not included in the table of contractual obligations above, are unsecured and are expected to remain in effect, in some cases, until 2027.

Off Balance Sheet Arrangements

We have no material off-balance sheet arrangements at December 31, 2017 or 2016 exclusive of items described above and indemnifications of officers, directors and employees for certain events or occurrences while the officer, director or employee is, or was, serving at our request in such capacity.

Recent Accounting Pronouncements

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

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

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

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

Interest Rate Sensitivity

Our portfolio of cash and cash equivalents and short- and long-term investments is maintained in a variety of securities, including government agency obligations, corporate bonds and money market funds. Investments are classified as available-for-sale securities and carried at their fair market value with cumulative unrealized gains or losses recorded as a component of accumulated other comprehensive loss within stockholders' equity. A sharp rise in interest rates could have an adverse impact on the fair market value of certain securities in our portfolio. We do not currently hedge our interest rate exposure and do not enter into financial instruments for trading or speculative purposes.

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 million aggregate principal amount of 0.25% convertible senior notes due 2022. 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 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.

Edgar Filing: HUBSPOT INC - Form 10-K

The table below provides a sensitivity analysis of hypothetical 10% changes of our stock price as of December 31, 2017 and the estimated impact on the fair value of the 2022 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 2022 Notes.

Hypothetical change in HubSpot stock price	Fair value	Estimated change in fair value	Hypothetical percentage increase (decrease) in fair value
10% increase	\$487,960	\$ 27,968	6 %
No change	\$460,012	\$ —	—
10% decrease	\$432,044	\$ (27,968)	(6)%

ITEM 8. FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<u>Reports of Independent Registered Public Accounting Firms</u>	57
<u>Consolidated Balance Sheets</u>	59
<u>Consolidated Statements of Operations</u>	60
<u>Consolidated Statements of Comprehensive Loss</u>	61
<u>Consolidated Statement of Stockholders' Equity</u>	62
<u>Consolidated Statements of Cash Flows</u>	63
<u>Notes to Consolidated Financial Statements</u>	64

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of HubSpot, Inc. and its subsidiaries (“the Company”) as of December 31, 2017 and 2016, and the related consolidated statements of operations, comprehensive loss, stockholders’ equity, and cash flows for each of the two years in the period ended December 31, 2017, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting

was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

February 13, 2018

We have served as the Company's auditor since 2016.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Cambridge, Massachusetts

We have audited the accompanying consolidated statement of operations, comprehensive loss, stockholders' equity, and cash flows of HubSpot, Inc. and subsidiaries (the "Company") for the year ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

/s/ Deloitte & Touche LLP

Boston, Massachusetts

February 24, 2016

HUBSPOT, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$87,680	\$59,702
Short-term investments	416,663	54,648
Accounts receivable—net of allowance for doubtful accounts of \$638 and \$617 at December 31, 2017 and 2016, respectively	60,676	38,984
Deferred commission expense	13,343	9,025
Restricted cash	4,757	162
Prepaid hosting costs	4,964	5,299
Prepaid expenses and other current assets	14,418	8,433
Total current assets	602,501	176,253
Long-term investments	31,394	35,718
Property and equipment, net	43,294	30,201
Capitalized software development costs, net	8,760	6,523
Restricted cash	347	321
Other assets	4,617	950
Intangible assets, net	6,312	16
Goodwill	14,950	9,773
Total assets	712,175	259,755
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	4,657	4,350
Accrued compensation costs	16,329	11,415
Other accrued expenses	20,430	16,192
Deferred revenue	136,880	95,426
Total current liabilities	178,296	127,383
Deferred rent, net of current portion	18,868	10,079
Deferred revenue, net of current portion	2,277	1,171
Other long-term liabilities	3,927	2,422
Convertible senior notes	298,447	—
Total liabilities	501,815	141,055
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, \$0.001 par value—authorized, 500,000 shares; issued and outstanding, 37,503 and 35,784 at December 31, 2017 and 2016, respectively	38	36
Additional paid-in capital	496,461	365,444
Accumulated other comprehensive loss	(57)	(864)

Edgar Filing: HUBSPOT INC - Form 10-K

Accumulated deficit	(286,082)	(245,916)
Total stockholders' equity	210,360	118,700
Total liabilities and stockholders' equity	\$712,175	\$259,755

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

HUBSPOT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2017	2016	2015
Revenue:			
Subscription	\$356,727	\$254,775	\$167,920
Professional services and other	18,885	16,192	14,023
Total revenue	375,612	270,967	181,943
Cost of Revenue:			
Subscription	51,563	41,182	32,271
Professional services and other	24,166	20,683	15,652
Total cost of revenue	75,729	61,865	47,923
Gross profit	299,883	209,102	134,020
Operating expenses:			
Research and development	70,373	45,997	32,457
Sales and marketing	212,859	162,647	112,629
General and administrative	56,787	45,120	35,408
Total operating expenses	340,019	253,764	180,494
Loss from operations	(40,136)	(44,662)	(46,474)
Other (expense) income:			
Interest income	3,837	854	390
Interest expense	(13,181)	(265)	(185)
Other (expense) income	(559)	(956)	628
Total other (expense) income	(9,903)	(367)	833
Loss before income tax benefit (expense)	(50,039)	(45,029)	(45,641)
Income tax benefit (expense)	10,325	(533)	(412)
Net loss	(39,714)	(45,562)	(46,053)
Net loss per common share, basic and diluted	\$(1.08)	\$(1.29)	\$(1.39)
Weighted average common shares used in computing basic and diluted net			
loss per common share:	36,827	35,197	33,222

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

HUBSPOT, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Year ended December 31,		
	2017	2016	2015
Net loss	\$(39,714)	\$(45,562)	\$(46,053)
Other comprehensive loss:			
Foreign currency translation adjustments	968	(172)	(272)
Changes in unrealized (loss) gain on investments, net of income taxes			
of \$0 in 2017, \$71 in 2016, and \$0 in 2015.	(161)	113	(388)
Comprehensive loss	\$(38,907)	\$(45,621)	\$(46,713)

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

61

HUBSPOT, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except per share amounts)

	Common		Accumulated			
	Stock, \$0.001		Additional	Other		
	Par Value Shares	Amount	Paid-In Capital	Comprehensive Loss	Accumulated Deficit	Total
Balances at January 1, 2015	31,431	\$ 32	\$ 265,113	\$ (145)	\$ (154,301)	\$ 110,699
Issuance of common stock under stock plans, net of						
shares withheld for employee taxes	1,910	1	2,252	—	—	2,253
Stock-based compensation	—	—	21,800	—	—	21,800
Proceeds from secondary public offering, net of						
deferred offering costs	972	1	33,668	—	—	33,669
Unrealized loss on investments, net of income						
taxes of \$0	—	—	—	(388)	—	(388)
Cumulative translation adjustment	—	—	—	(272)	—	(272)
Net loss	—	—	—	—	(46,053)	(46,053)
Balances at December 31, 2015	34,313	34	322,833	(805)	(200,354)	121,708
Issuance of common stock under stock plans, net of						
shares withheld for employee taxes	1,471	2	8,745	—	—	8,747
Stock-based compensation	—	—	33,866	—	—	33,866
Unrealized gain on investments, net of income						
taxes of \$71	—	—	—	113	—	113
Cumulative translation adjustment	—	—	—	(172)	—	(172)
Net loss	—	—	—	—	(45,562)	(45,562)
Balances at December 31, 2016	35,784	36	365,444	(864)	(245,916)	118,700
Issuance of common stock under stock plans, net						
of shares withheld for employee taxes	1,719	2	7,919	—	—	7,921
Stock-based compensation	—	—	48,933	—	—	48,933
	—	—	452	—	(452)	—

Cumulative adjustment from adoption of stock compensation standard						
Cumulative translation adjustment	—	—	—	968	—	968
Unrealized loss on investments, net of income taxes of \$0	—	—	—	(161)	(161)
Equity component of 2022 Notes (Note 7)	—	—	73,713	—	—	73,713
Net loss	—	—	—	—	(39,714) (39,714)
Balances at December 31, 2017	37,503	\$ 38	\$496,461	\$ (57)	\$ (286,082) \$210,360

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

HUBSPOT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2017	2016	2015
Operating Activities:			
Net loss	\$(39,714)	\$(45,562)	\$(46,053)
Adjustments to reconcile net loss to net cash and cash equivalents provided by			
(used in) operating activities:			
Depreciation and amortization	15,786	11,177	7,343
Stock-based compensation	47,317	32,675	21,308
Deferred income tax benefit	(11,546)	(133)	(50)
Amortization of debt discount and issuance costs	12,366	—	—
(Accretion) amortization of bond discount premium	(1,576)	647	671
Non-cash rent expense	5,039	3,968	1,793
Unrealized currency translation	(139)	81	(329)
Changes in assets and liabilities			
Accounts receivable	(20,180)	(14,099)	(11,249)
Prepaid expenses and other assets	(5,588)	(6,126)	(3,373)
Deferred commission expense	(4,004)	(453)	(2,119)
Accounts payable	1,100	983	(508)
Accrued expenses	8,195	4,004	7,085
Deferred rent	3,559	(107)	392
Deferred revenue	38,999	32,311	24,666
Net cash and cash equivalents provided by (used in) operating activities	49,614	19,366	(423)
Investing Activities:			
Purchases of investments	(890,009)	(52,131)	(113,615)
Maturities and sales of investments	533,660	50,840	23,018
Purchases of property and equipment	(20,276)	(15,789)	(8,427)
Capitalization of software development costs	(7,071)	(5,749)	(4,314)
Acquisition of a business and purchase of technology	(9,415)	—	(600)
Purchase of strategic investments	(3,500)	—	—
Restricted cash	(4,586)	(128)	(166)
Net cash and cash equivalents used in investing activities	(401,197)	(22,957)	(104,104)
Financing Activities:			
Proceeds from common stock offerings, net of offering costs paid of \$583	—	—	33,669
Employee taxes paid related to the net share settlement of stock-based awards	(4,419)	(2,368)	(8,607)
Proceeds related to the issuance of common stock under stock plans	13,086	11,584	12,083
Proceeds from issuance of convertible notes, net of issuance costs paid of \$10,767	389,233	—	—
Purchase of note hedge related to convertible notes	(78,920)	—	—
Proceeds from the issuance of warrants related to convertible notes, net of issuance costs paid of \$200	58,880	—	—

Edgar Filing: HUBSPOT INC - Form 10-K

Repayment of capital lease obligations	(1,054)	(743)	(206)
Net cash and cash equivalents provided by financing activities	376,806	8,473	36,939
Effect on exchange rate changes on cash and cash equivalents	2,755	(760)	(553)
Net increase (decrease) in cash and cash equivalents	27,978	4,122	(68,141)
Cash and cash equivalents, beginning of year	59,702	55,580	123,721
Cash and cash equivalents, end of year	\$87,680	\$59,702	\$55,580
Supplemental cash flow disclosure:			
Cash paid for interest	\$762	\$174	\$185
Cash paid for income taxes	\$855	\$954	\$215
Non-cash investing and financing activities:			
Property and equipment acquired under capital lease	\$1,039	\$995	\$847
Capital expenditures incurred but not yet paid	\$680	\$1,383	\$435
Asset retirement obligations	\$575	\$561	\$—

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

HUBSPOT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Operations

HubSpot, Inc. (the “Company”), was formed as a limited liability company in Delaware on April 4, 2005. The Company converted to a Delaware corporation on June 7, 2007. The Company provides a cloud-based inbound marketing and sales platform which features integrated applications to help businesses attract visitors to their websites, convert visitors into leads, close leads into customers and delight customers so they become promoters of those businesses. These integrated applications include social media, search engine optimization, blogging, website content management, marketing automation, email, sales productivity, CRM, analytics, and reporting.

2. Summary of Significant Accounting Policies

Basis of Presentation —The consolidated financial statements have been prepared in U.S. dollars, in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

Use of Estimates —The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

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”), Employee Stock Purchase Plan (“ESPP”), and the Conversion Option of the 2022 Notes (Note 7) are considered to be potential common stock equivalents.

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

Year Ended December 31,

Edgar Filing: HUBSPOT INC - Form 10-K

	2017	2016	2015
	(in thousands, except per share amounts)		
Net loss	\$(39,714)	\$(45,562)	\$(46,053)
Weighted-average common shares outstanding—basic	36,827	35,197	33,222
Dilutive effect of share equivalents resulting from stock options, RSUs, ESPP and the Conversion Option of the 2022 Notes	—	—	—
Weighted-average common shares outstanding-diluted	36,827	35,197	33,222
Net loss per common share, basic and diluted	\$(1.08)	\$(1.29)	\$(1.39)

Additionally, 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. The Company's outstanding stock options, RSUs, ESPP, and Conversion Option of the 2022 Notes were not included in the calculation of diluted net loss per share as the effect would be anti-dilutive. The following table contains all potentially dilutive common stock equivalents.

	Year Ended December		
	31,		
	2017	2016	2015
	(in thousands)		
Options to purchase common shares	2,085	2,709	3,331
RSUs	2,315	2,264	1,703
ESPP	10	11	—

The Company expects to settle the principal amount of the 2022 Notes in cash, and therefore, the Company uses the treasury stock method for calculating any potential dilutive effect of the Conversion Option on diluted net income per share, if applicable. The Conversion Option will have a dilutive impact on net income per share of common stock when the average market price of the Company's common stock for a given period exceeds the conversion price of the 2022 Notes of \$94.77 per share. During the year ended December 31, 2017, the Company's weighted average common stock price was below the conversion price of the 2022 Notes.

Cash and Cash Equivalents — The Company considers all highly liquid investments purchased with original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash held in bank deposit accounts and short-term, highly-liquid investments with remaining maturities of three months or less at the date of purchase, consisting of money-market funds.

Investments — Investments consist of corporate debt securities, U.S. government agency obligations, and U.S. Treasury securities. Securities having remaining maturities of more than three months at the date of purchase and less than one year from the date of the balance sheets are classified as short-term, and those with maturities of more than one year from the date of the balance sheet are classified as long-term in the consolidated balance sheets. The Company classifies its debt investments with readily determinable market values as available-for-sale. These investments are classified as investments on the consolidated balance sheets and are carried at fair market value, with unrealized gains and losses considered to be temporary in nature reported as accumulated other comprehensive loss, a separate component of stockholders' equity. The Company reviews all investments for reductions in fair value that are other-than-temporary. When such reductions occur, the cost of the investment is adjusted to fair value through recording a loss on investments in the consolidated statements of operations. Gains and losses on investments are calculated on the basis of specific identification.

Investments are considered to be impaired when a decline in fair value below cost basis is determined to be other-than-temporary. The Company periodically evaluates whether a decline in fair value below cost basis is other-than-temporary by considering available evidence regarding these investments including, among other factors: the duration of the period that, and extent to which, the fair value is less than cost basis; the financial health of, and business outlook for the issuer, including industry and sector performance and operational and financing cash flow factors; overall market conditions and trends and the Company's intent and ability to retain its investment in the security for a period of time sufficient to allow for an anticipated recovery in market value. Once a decline in fair value is determined to be other-than-temporary, a write-down is recorded and a new cost basis in the security is established.

Strategic investments — Strategic investments consist of non-controlling equity investments in privately held companies. These investments without readily determinable fair values for which the Company does not have the ability to exercise significant influence are accounted for using the cost method of accounting. Under the cost method of accounting, the non-marketable securities are carried at cost and are adjusted only for other-than-temporary impairments, certain distributions and additional investments.

Accounts Receivable and Allowance for Doubtful Accounts —Accounts receivable are carried at the original invoiced amount less an allowance for doubtful accounts based on the probability of future collection. When management becomes aware of circumstances that may decrease the likelihood of collection to a point where a receivable is no longer probable of being collected, it records an allowance against amounts due, which reduces the receivable to the amount that management reasonably believes will be collected. For all other customers, management determines the adequacy of the allowance based on historical loss patterns, the number of days that billings are past due and an evaluation of the potential risk of loss associated with specific accounts. To date, losses resulting from uncollected receivables have not exceeded management's expectations.

Edgar Filing: HUBSPOT INC - Form 10-K

The following is a roll forward of the Company's allowance for doubtful accounts (in thousands):

	Balance	Charged to		Balance
	Beginning	Statement		at
	of Period	of	Deductions ⁽¹⁾	End of
		Operations		Period
Allowance for doubtful accounts				
Year ended December 31, 2017	\$ 617	\$ 3,353	\$ (3,332)	\$ 638
Year ended December 31, 2016	\$ 371	\$ 2,517	\$ (2,271)	\$ 617
Year ended December 31, 2015	\$ 218	\$ 1,367	\$ (1,214)	\$ 371

(1) Deductions include actual accounts written-off, net of recoveries.

Restricted Cash —The Company had restricted cash of \$5.1 million at December 31, 2017 and \$483 thousand at December 31, 2016 related to leased facilities.

Property and Equipment —Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets. Expenditures for maintenance and repairs are charged to expense as incurred, whereas major betterments are capitalized as additions to leasehold improvements. Depreciation is recorded over the following estimated useful lives:

	Estimated Useful Life
Employee related computer equipment	2 – 3 years
Computer equipment and purchased software	3 years
Office equipment	5 years
Furniture and fixtures	5 years
Internal use software	5 years
Leasehold improvements	Lesser of lease term or useful life

Internal use software

The Company capitalizes certain payroll and stock compensation costs incurred to develop functionality for certain of the Company's internally built software platforms. The costs incurred during the preliminary stages of development are expensed as incurred. Once a piece of incremental functionality has reached the development stage certain internal costs are capitalized until the functionality is ready for its intended use. Internal use software is included within property and equipment on the balance sheet. The costs are generally amortized on a straight-line basis over an estimated useful life of approximately five years.

Asset Retirement Obligations—The Company recognizes Assets Retirement Obligations (“AROs”) for any significant lease restoration obligation, if required by a lease agreement. The fair values of these AROs are recorded on a discounted basis, at the time the obligation is incurred, and accreted over time for the change in present value. Additionally, the Company capitalizes asset retirement costs by increasing the carrying amount of the related

long-lived assets and depreciating these assets over their remaining useful life.

The changes in these obligations during the year ending December 31, 2017 and December 31, 2016 are as follows:

	Year Ended December 31, 2017 2016 (in thousands)	
Beginning balance	\$591	\$—
Additions	580	561
Accretion	46	30
Settlements	(26)	—
Ending balance	\$1,191	\$591

Impairment of Long-Lived Assets —Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable or that the useful lives of those assets are no longer appropriate. Management considers the following potential indicators of impairment of its long-lived assets (asset group): a substantial decrease in the Company's stock price, a significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used, a significant adverse change in legal factors or in the business climate that could affect the value of the

long-lived asset (asset group), an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group), and a current expectation that, more likely than not, a long lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. When such events occur, the Company compares the carrying amounts of the assets to their undiscounted expected future cash flows. If this comparison indicates that there may be an impairment, the amount of the impairment is calculated as the difference between the carrying value and fair value. For the years presented, the Company did not recognize an impairment charge.

Intangible Assets — Intangible assets consist acquired technology and intellectual property. We record acquired intangible assets at fair value on the date of acquisition, and amortize such assets using the straight-line method over the expected useful life of the asset. The estimated useful life of acquired technology and intellectual property is two to three years. The Company evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. If the estimate of an intangible asset's remaining useful life is changed, we amortize the remaining carrying value of the intangible asset prospectively over the revised remaining useful life.

Goodwill — Goodwill represents the excess of cost over the fair value of the net tangible and identifiable intangible assets acquired in a business combination. The Company has no other intangible assets with indefinite useful lives. Goodwill is not subject to amortization, but is monitored annually for impairment or more frequently if there are indicators of impairment. Management considers the following potential indicators of impairment: significant underperformance relative to historical or projected future operating results, significant changes in the Company's use of acquired assets or the strategy of the Company's overall business, significant negative industry or economic trends and a significant decline in the Company's stock price for a sustained period. The Company performs its annual impairment test on November 30. Currently, the Company's goodwill is evaluated at the entity level as it is determined there is only one reporting unit. The Company performs a two-step impairment test. In the first step, the fair value of each reporting unit is compared to its carrying amount. If the fair value exceeds the carrying value of the net assets assigned, goodwill is not considered impaired and the second step is not required. If the carrying value exceeds the fair value, then the second step of the impairment test is performed in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of the goodwill exceeds the fair value, then an impairment charge is recorded. On November 30, 2017, the fair value of the Company's single reporting unit exceeded its carrying amount. Because the fair value of the Company's single reporting unit was in excess of its carrying value and there were no indicators that the Company's goodwill had become impaired since that date, there was no impairment as of November 30, 2017 or December 31, 2017.

For the years ended December 31, 2017, 2016 and 2015, the Company did not recognize an impairment charge.

Advertising Expense — The Company expenses advertising as incurred, which is included in sales and marketing expense in the accompanying consolidated statements of operations. The Company incurred \$5.5 million of advertising expense in 2017, \$4.2 million in 2016, and \$4.9 million in 2015.

Revenue Recognition — The Company primarily generates revenue from multiple-element arrangements, which typically include subscriptions to its online software solution and professional services which includes on-boarding and training services. The Company's customers do not have the right to take possession of the online software solution. The Company recognizes revenue when all of the following have occurred:

- persuasive evidence of an arrangement with the customer exists;
- service has been or is being provided;

the fees are fixed or determinable; and
collectability of the fees is reasonably assured.

The Company's arrangements do not contain general rights of return.

In order to treat elements in a multiple-element arrangement as separate units of accounting, the delivered elements must have standalone value and delivery of the undelivered element is probable and within control of the Company.

The Company has determined that subscriptions for its online software solution have standalone value because, once a customer launches its initial site, the online software solution is fully functional and does not require any additional development, modification, or customization.

Professional services consists primarily of on-boarding and web-based and in-person training, are not required to use the online software solution, and are determined to have stand-alone value from the related subscription services because they are sold separately by the Company and third parties.

When multiple-element arrangements are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. The estimated fair value of each element is determined based upon the following hierarchy: (1) vendor specific objective evidence (“VSOE”) of fair value, (2) third party evidence of selling price (“TPE”), or (3) the Company’s best estimate of selling price (“BESP”). There is not an available measure of TPE of selling price and, as such, arrangement consideration is allocated amongst multiple deliverable arrangements using VSOE, if VSOE can be established, and BESP if VSOE cannot be established. The Company establishes VSOE and BESP for each deliverable primarily considering the median or average of actual sales prices (stand-alone sales prices for VSOE) of each type of subscription and other professional services sold. The Company considers each type of subscription and service as well as pricing and geographic information when establishing VSOE and BESP. Arrangement consideration is allocated such that the revenue recognized does not exceed the fee subject to refund.

Revenue from subscriptions is recognized ratably over the subscription period beginning on the date the Company’s subscription is made available to customers. Substantially all subscription contracts are one year or less. The Company recognizes revenue from on-boarding and training services as the services are provided.

The Company pays its marketing and sales agency partners (“Partners”) a commission of the subscription sales price for sales to customers. The classification of the commission paid on the Company’s consolidated statements of operations depends on who is purchasing its subscription. In instances where the customer is purchasing the subscription, the Company is the primary obligor and records the commission paid to the Partners as sales and marketing expense. When the Partner purchases the subscription directly from the Company, the Company nets the consideration paid to the Partner against the associated revenue it recognizes, as in these instances the Company’s customer is the Partner and the Company’s remaining obligations are to the Partner. The Company does not believe that it receives a tangible benefit from the payment back to the Partner.

Sales taxes collected from customers and remitted to government authorities are excluded from revenue.

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.

Concentrations of Credit Risk and Significant Customers —Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, investments and accounts receivable.

A significant portion of the Company’s cash and cash equivalents is held at four financial institutions that management believes to be of high credit quality. Although the Company deposits its cash and cash equivalents with multiple financial institutions, its deposits exceed federally insured limits.

The Company’s investments consist of highly rated corporate debt securities and U.S. government agency obligations, and U.S. Treasury securities. The Company limits the amount of investments in any single issuer. The Company believes that, as of December 31, 2017, its concentration of credit risk related to investments was not significant.

The Company has no significant off-balance sheet risk such as foreign exchange contracts, option contracts, or other hedging arrangements.

The Company generally does not require collateral from its customers and generally requires payment 30 days from the invoice date. The Company maintains an allowance for doubtful accounts based on its assessment of the collectability of accounts receivable. Credit risk arising from accounts receivable is mitigated as a result of transacting with a large number of geographically dispersed customers spread across various industries.

At December 31, 2017 and 2016 there were no customers that represented more than 10% of the net accounts receivable balance. There were no customers that individually exceeded 10% of the Company's revenue in any of the periods presented.

Foreign Currency —The functional currency of the Company's foreign subsidiaries is the local currency. Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rates in effect at the balance sheet dates; with the resulting translation adjustments directly recorded to a separate component of accumulated other comprehensive loss. Income and expense accounts are translated at the weighted-average exchange rates during the period. Foreign currency transaction gains and losses are recorded in other income (expense).

Research and Development —Research and development expenses include payroll, employee benefits and other expenses associated with product development.

Capitalized Software Development Costs —Certain payroll and stock compensation costs incurred to develop functionality for the Company’s software and internally built software platforms, as well as certain upgrades and enhancements that are expected to result in increased functionality are capitalized. The costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, certain internal costs are capitalized until the software is substantially complete and ready for its intended use. Capitalized software development costs are amortized on a straight-line basis over their estimated useful life of two to five years. Management evaluates the useful lives of these assets on a quarterly basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

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

	December 31, 2017 December 31, 2016 (in thousands)	
Gross capitalized software development costs	\$33,360	\$ 25,152
Accumulated amortization	(24,600)	(18,629)
Capitalized software development costs, net	\$8,760	\$ 6,523

The Company capitalized software development costs, exclusive of costs recorded within property and equipment, of \$8.2 million in 2017, \$6.4 million in 2016, and \$4.5 million in 2015. Stock-based compensation costs included in capitalized software were \$1.6 million in 2017, \$1.2 million in 2016, and \$492 thousand in 2015.

Amortization of capitalized software development costs, exclusive of costs recorded within property and equipment, was \$6.3 million in 2017, \$5.1 million in 2016, and \$4.6 million in 2015. Amortization expense is included in cost of revenue in the consolidated statements of operations.

Income Taxes —Deferred tax assets and liabilities are recognized for the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities using tax rates expected to be in effect in the years in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Accounting for uncertainty in income taxes recognized in the financial statements is in accordance with accounting authoritative guidance, which prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed “more-likely-than-not” to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50 percent likelihood of being realized upon ultimate settlement.

Undistributed foreign earnings of approximately \$6.9 million have been taxed in 2017 due to a one-time transition tax on previously undistributed foreign earnings. For any future foreign earnings, the Company will generally be free of additional U.S. federal tax consequences due to a dividends received deduction implemented as part of the move to a territorial tax system for foreign subsidiary earnings.

Stock-Based Compensation —The Company accounts for all stock options and awards granted to employees and nonemployees using a fair value method. Stock-based compensation is recognized as an expense and is measured at the fair value of the award. The measurement date for employee awards is generally the date of the grant. The measurement date for nonemployee awards is generally the date the awards vest. Stock-based compensation costs are recognized as expense over the requisite service period, which is generally the vesting period for awards, on a straight-line basis for awards with only a service condition, and using the graded-method for awards with both a performance and service that were granted prior to our IPO, and on a straight-line basis for the awards that were granted following our IPO, which only have service conditions.

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.

The Company adopted updated guidance related to certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid-in capital pools. As a result of the adoption, we recorded an increase to deferred tax assets with a corresponding increase to the valuation allowance of \$30.4 million to recognize net operating loss carryforwards attributable to excess tax benefits on stock compensation that had not been previously recognized as additional paid-in capital. In addition, the Company changed its policy election to account for forfeitures as they occur rather than on an estimated basis. The change in the policy election related to forfeitures resulted in the Company reclassifying \$452 thousand from additional paid-in capital to accumulative deficit for the net cumulative-effect adjustment in stock compensation expense related to prior periods.

In January 2017, the Financial Accounting Standards Board (“FASB”) issued guidance, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The standard introduces a screen for determining when assets acquired are not a business and clarifies that a business must include, at a minimum, an input and a substantive process that contribute to an output to be considered a business. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period, and early adoption is permitted. The Company adopted this standard in the third quarter of 2017 and the adoption of this standard did not have a material impact on the consolidated financial statements.

In January 2017, the FASB issued guidance simplifying the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test. Under current guidance, Step 2 of the goodwill impairment test requires entities to calculate the implied fair value of goodwill in the same manner as the amount of goodwill recognized in a business combination by assigning the fair value of a reporting unit to all of the assets and liabilities of the reporting unit. The carrying value in excess of the implied fair value is recognized as goodwill impairment. Under the new standard, goodwill impairment is recognized based on Step 1 of the current guidance, which calculates the carrying value in excess of the reporting unit’s fair value. The new standard is effective beginning in January 2020, with early adoption permitted. We do not believe the adoption of this guidance will have a material impact on our consolidated financial statements.

In November 2016, the FASB issued guidance related to the presentation of restricted cash within the statement of cash flows. The guidance requires entities to show the changes in cash, cash equivalents, and restricted cash in the statement of cash flows. Entities will no longer present transfers between cash and cash equivalents and restricted cash in the statement of cash flows. As of December 31, 2017, we had \$5.1 million in restricted cash. The new standard is effective beginning in the first quarter of 2018, with early adoption permitted. The impact of including restricted cash with cash and cash equivalents when reconciling the beginning-of-year and end-of-year total amounts presented on the consolidated statement of cash flows would increase net cash flows for the year ended December 31, 2017 by approximately \$4.6 million.

In February 2016, the FASB issued guidance that requires lessees to recognize most leases on their balance sheets but record expenses on their income statements in a manner similar to current accounting. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. The guidance is effective in 2019 with early adoption permitted. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

In June 2016, the FASB issued guidance that introduces a new methodology for accounting for credit losses on financial instruments, including available-for-sale debt securities. The guidance establishes a new "expected loss model" that requires entities to estimate current expected credit losses on financial instruments by using all practical and relevant information. Any expected credit losses are to be reflected as allowances rather than reductions in the amortized cost of available-for-sale debt securities. This guidance will be effective for the Company on January 1, 2020. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

In May 2014, the FASB issued updated guidance and disclosure requirements for recognizing revenue. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also provides guidance on the recognition of costs related to obtaining customer contracts. The new standard is effective for the Company for its annual reporting periods beginning January 1, 2018. The Company will adopt the standard on January 1, 2018, using the modified retrospective method, which will result in a cumulative effect adjustment as of the date of adoption. The Company established a

team that has assessed the impact of the standard including the timing of revenue recognition and the accounting for deferred commission costs and related balances. The Company has determined that there will be a change to the period over which sales commissions will be amortized to incorporate an estimated customer life and the amortization period over which internally developed new features and increased functionality for our software platform is recorded, in addition to the initial contract period. This will result in a longer amortization period for deferred sales commissions, which will reduce the expense in any one period compared to today. There will also be a change to the scope of capitalized sales commissions based on the definition of incremental costs of obtaining a contract. This will result in a higher capitalized commissions balance upon adoption. In addition, there will be a change in relation to the timing of revenue recognition for certain sales contracts, where free or discounted services are bundled with our subscription offering due primarily to the removal of the current limitation on contingent revenue. This will accelerate revenue recognition on these contracts when these services are provided up front as compared to today. The change in the period over which sales commissions will be amortized will have a material impact to the consolidated financial statements and disclosures. The change in the timing of revenue recognition for certain sales contracts, where free or discounted services are bundled with our subscription offering, will not have a material impact to the consolidated financial statements and disclosures.

3. 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 December 31, 2017 and December 31, 2016:

	December 31, 2017			Total
	Level 1 (in thousands)	Level 2	Level 3	
Cash equivalents and investments:				
Money market funds	\$12,845	\$—	\$ —	\$12,845
Commercial paper	—	5,867	—	5,867
Corporate bonds	—	81,668	—	81,668
U.S. government agency obligations	—	3,987	—	3,987
U.S. Treasury securities	—	356,535	—	356,535
Restricted cash:				
Certificates of deposit	—	5,105	—	5,105
Total	\$12,845	\$453,162	\$ —	\$466,007

	December 31, 2016			Total
	Level 1 (in thousands)	Level 2	Level 3	
Cash equivalents and investments:				
Money market funds	\$32,260	\$—	\$ —	\$32,260
Commercial paper	—	12,439	—	12,439
Corporate bonds	—	66,947	—	66,947
U.S. government agency obligations	—	10,980	—	10,980
Total	\$32,260	\$90,366	\$ —	\$122,626

The Company considers all highly liquid investments purchased with a remaining 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 December 31, 2017 and December 31, 2016, our 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 December 31, 2017, the fair value of the 2022 Notes (Note 7) was \$460.0 million. The fair value was determined based on the quoted price of the 2022 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, capital leases 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 certificates of deposit related to landlord guarantees for our 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. These investments without readily determinable fair values for which the Company does not have the ability to exercise significant influence are accounted for using the cost method of accounting. Under the cost method of accounting, the non-marketable securities are carried at cost and are adjusted only for other-than-temporary impairments, certain distributions and additional investments. These investments are valued using significant unobservable inputs or data in an inactive market and the valuation requires the Company's judgment due to the absence of market prices and inherent lack of liquidity. The estimated fair value is based on quantitative and qualitative factors including, but not limited to, subsequent financing activities by the investee and projected discounted cash flows. Fair value is not estimated for non-marketable equity securities if there are no identified events or changes in circumstances that may have an effect on the fair value of the investment. The carrying value of the strategic investments was \$3.5 million at December 31, 2017 and \$0 at December 31, 2016. Strategic investments are included with other assets on the consolidated balance sheets.

The following tables summarize the composition of our short- and long-term investments at December 31, 2017 and 2016:

	December 31, 2017			
	Amortized	Unrealized	Unrealized	Aggregate
	Cost	Gains	Losses	Fair Value
	(in thousands)			
Commercial paper	\$5,874	\$ —	\$ (7)	\$ 5,867
Corporate bonds	81,947	—	(279)	81,668
U.S. government agency obligations	4,000	—	(13)	3,987
U.S. Treasury securities	356,671	8	(144)	356,535
Total	\$448,492	\$ 8	\$ (443)	\$ 448,057

	December 31, 2016			
	Amortized	Unrealized	Unrealized	Aggregate
	Cost	Gains	Losses	Fair Value
	(in thousands)			
Commercial paper	\$12,446	\$ —	\$ (7)	\$ 12,439
Corporate bonds	67,126	—	(179)	66,947
U.S. government agency obligations	10,998	—	(18)	10,980
Total	\$90,570	\$ —	\$ (204)	\$ 90,366

For all of our securities for which the amortized cost basis was greater than the fair value at December 31, 2017 and 2016, 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

Edgar Filing: HUBSPOT INC - Form 10-K

The contractual maturities of short-term and long-term investments held at December 31, 2017 and 2016 are as follows:

	December 31, 2017		December 31, 2016	
	Amortized		Amortized	
	Aggregate		Aggregate	
	Cost	Fair Value	Cost	Fair Value
	Basis		Basis	
	(in thousands)			
Due within one year	\$416,932	\$416,663	\$54,694	\$54,648
Due after 1 year through 2 years	31,560	31,394	35,876	35,718
Total	\$448,492	\$448,057	\$90,570	\$90,366

4. Property and Equipment

Property and equipment as of December 31, 2017 and December 31, 2016 consists of the following:

	December 31.	
	2017	2016
	(in thousands)	
Computer equipment & purchased software	\$4,571	\$3,237
Employee computer equipment	4,260	1,534
Furniture and fixtures	11,083	8,174
Office equipment	2,620	2,326
Leasehold improvements	33,446	23,693
Equipment under capital lease	3,450	2,412
Internal-use software	2,892	1,301
Construction in progress	3,198	322
Total property and equipment	65,520	42,999
Less accumulated depreciation	(22,226)	(12,798)
Property and equipment, net	\$43,294	\$30,201

Depreciation and amortization expense was \$9.4 million in 2017, \$5.9 million in 2016, and \$2.7 million in 2015.

Accumulated depreciation for equipment under capital lease was \$2.4 million as of December 31, 2017 and \$1.2 million as of December 31, 2016.

The Company capitalized asset retirement costs of \$1.1 million at December 31, 2017 and \$561 thousand at December 31, 2016 within leasehold improvements on the consolidated balance sheets, and recorded the related liability to other long-term liabilities. These costs represent future lease restoration obligations as required by Company's leases.

5. Business Acquisition and Purchase of Technology

On September 20, 2017, the Company acquired 100% of the equity interests of Motion AI, Inc., a Delaware technology corporation that allows users to scale one-to-one communications. The acquisition strengthens the Company's position in the one-to-one communication space. Under the terms of the purchase agreement, the Company paid \$9.0 million. The excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets and liabilities acquired was recorded as goodwill and is primarily attributable to expanded market opportunities. The goodwill recognized is not deductible for U.S. income tax purposes.

The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed as part of the business combination were determined based on the replacement costs and present value of expected after-tax cash flows attributable to the business which were derived from management's estimates and assumptions. The sole intangible asset acquired in the business combination was developed technology and the estimate of fair value of the developed technology was determined using a replacement cost approach and the useful life of the technology was estimated to be two years. The Company will begin amortizing the acquired technology when the technology is placed in use, which is expected to be 2018. The acquired technology will be amortized over its useful life of two year. The amortization expense will be recorded to cost of subscription revenue in the consolidated statements of operations.

The preliminary allocation of the purchase price to the estimated fair value of acquired assets and assumed liabilities is \$32 thousand of tangible assets, \$6.0 million of acquired technology, and \$5.2 million of goodwill. As part of the purchase price allocation, the Company recorded a deferred tax benefit of \$2.2 million from a partial release of its deferred tax asset valuation allowance. The net deferred tax liability from this acquisition provided a source of additional income to support the realizability of the Company's pre-existing deferred tax assets and as a result, the Company released a portion of its valuation allowance. Lastly, there was approximately \$4.0 million of potential consideration that was not included in the purchase price allocation as it is not associated with pre-combination services. If earned, this will be recorded in the consolidated statement of operations over a period of approximately three years.

The Company has included the operating results of the business combination 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 2016 were not materially different from the amounts reflected in the accompanying consolidated financial statements.

During the third quarter of 2017 the Company also acquired technology for \$400 thousand. The estimated useful life of the acquired technology is two years.

6. Intangible Assets

Intangible assets as of December 31, 2017 and 2016 consist of the following:

	Weighted Average Remaining Useful Life	December 31, 2017 2016 (in thousands)	
Acquired technology	19 Months	\$7,252	\$852
Acquired intellectual property	—	80	80
Accumulated amortization		(1,020)	(916)
Total		\$6,312	\$16

The estimated useful life of acquired technology and intellectual property is two to three years. The Company evaluates the useful lives of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets.

Amortization expense related to intangible assets was \$103 thousand in 2017, \$84 thousand in 2016, and \$96 thousand in 2015. Amortization expense of acquired technology is included in cost of subscription revenue in the consolidated statements of operations. Amortization expense of acquired intellectual property is included in sales and marketing expense in the consolidated statements of operations.

Estimated future amortization expense for intangible assets, currently being amortized, as of December 31, 2017 is as follows:

Years ended	Amortization Expense (in thousands)
December 31, 2018	200
December 31, 2019	112
Total	\$ 312

The estimated amortization does not include the amortization of the \$6.0 million of acquired technology from the acquisition of Motion AI, Inc. as the intangible asset has not been placed into service as of December 31, 2017. The Company expects that the acquired technology will be placed into service during 2018 and will be amortized through 2020.

7. 0.25% 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 (the "Maturity Date") 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"). The interest rates are fixed at 0.25% per annum and are payable semi-annually in arrears on June 1 and December 1 of each year, commencing on December 1, 2017. The total net proceeds from the debt offering, after deducting initial purchase discounts and debt issuance costs, were approximately \$389.2 million.

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"), which is equivalent to an initial conversion price of approximately \$94.77 per share, subject to adjustment upon the occurrence of specified events. The 2022 Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding February 1, 2022, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2017, if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "Measurement Period") in which the trading price per \$1,000 principal amount of notes for each trading day of the Measurement

Period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate 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 2022 Notes at any time, regardless of the foregoing 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. If the Company undergoes a fundamental change prior to the maturity date, holders of the notes may require the Company to repurchase for cash all or any portion of their notes at a repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, if specific corporate events occur prior to the applicable maturity date, the Company will increase the conversion rate for a holder who elects to convert their notes in connection with such a corporate event in certain circumstances. During the year ended December 31, 2017, the conditions allowing holders of the 2022 Notes to convert have not been met. The 2022 Notes are therefore not convertible during the year ended December 31, 2017 and are classified as long-term debt.

In accounting for the issuance of the convertible senior notes, the Company separated the 2022 Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the Conversion Option was \$106 million and was determined by deducting the fair value of the liability component from the par value of the 2022 Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount (the "Debt Discount") is amortized to interest expense over the term of the 2022 Notes expense at an effective interest rate of 6.95% over the contractual term of the 2022 Notes.

In accounting for the debt issuance costs of \$10.8 million related to the 2022 Notes, the Company allocated the total amount incurred to the liability and equity components of the 2022 Notes based on their relative values. Issuance costs attributable to the liability component were \$7.9 million and will be amortized to interest expense using the effective interest method over the contractual terms of the 2022 Notes. Issuance costs attributable to the equity component were \$2.9 million and are netted with the equity component in stockholders' equity.

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

	As of December 31, 2017	As of December 31, 2016
	(in thousands)	
Principal	\$400,000	\$ —
Unamortized debt discount	(94,498)	—
Unamortized issuance costs	(7,055)	—
Net carrying amount	\$298,447	\$ —

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

Edgar Filing: HUBSPOT INC - Form 10-K

	As of December 31, 2017	As of December 31, 2016
	(in thousands)	
Debt discount for conversion option	\$ 106,006	—
Issuance costs	(2,854)	—
Net carrying amount	\$ 103,152	\$ —

Interest expense related to the 2022 Notes is as follows:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Contractual interest expense	\$ 639	\$ —	\$ —
Amortization of debt discount	859	—	—
Amortization of issuance costs	11,507	—	—
Total interest expense	\$ 13,005	\$ —	\$ —

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) a total of 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 upon conversion of the 2022 Notes. The total cost of the Convertible Note Hedges was \$78.9 million. In addition, the Company sold warrants to certain bank counterparties whereby the holders of the warrants have the option to purchase initially (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. The Company received \$58.9 million in cash proceeds, net of issuance costs of \$200 thousand, from the sale of these warrants. Taken together, the purchase of the Convertible Note Hedges and the sale of warrants are intended to offset any actual dilution from the conversion of these notes and to effectively increase the overall conversion price from \$94.77 to \$115.83 per share. As these transactions meet certain accounting criteria, the Convertible Note Hedges and warrants are recorded in stockholders’ equity and are not accounted for as derivatives. The net cost of \$20 million incurred in connection with the Convertible Note Hedges and warrant transactions was recorded as a reduction to additional paid-in capital on the consolidated balance sheet.

The difference between the Debt Discount and the total cost of the Convertible Note Hedges, and the difference between the calculation of the book and tax allocation of debt issuance costs between the liability and equity components of the 2022 Notes, resulted in a difference between the carrying amount and tax basis of the 2022 Notes. This taxable temporary difference resulted in the Company recognizing a \$9.4 million deferred tax liability which was recorded as an adjustment to additional paid-in capital on the consolidated balance sheet. The creation of the deferred tax liability is recognized as a component of equity and represents a source of future taxable income which supports realization of a portion of the income tax benefit associated with the 2017 loss from operations. Therefore, the Company recorded a corresponding income tax benefit in its consolidated statement of operations in 2017.

The net equity impact, included in additional paid-in capital, of the above components of the 2022 Notes is as follows:

	(in thousands)
Conversion Option	\$ 106,006
Purchase of Convertible Note Hedges	(78,920)
Sales of warrants	59,080
Issuance costs	(3,054)
Deferred tax liability	(9,399)
Total	\$ 73,713

8. Geographic Data

As more fully described in the Company's Summary of Significant Accounting Policies, the Company operates in one operating segment. Revenue and long-lived assets by geographic region, based on physical location of the operations recording the sale or the assets are as follows:

Revenues by geographical region:

	Year Ended December 31,		
	2017	2016	2015
	(In thousands)		
Americas	\$283,696	\$219,422	\$154,625
Europe	70,895	41,616	23,487
Asia Pacific	21,021	9,929	3,831
Total	\$375,612	\$270,967	\$181,943
Percentage of revenues generated outside of the			
Americas	24	%	19
			%
			15
			%

In 2017, revenue derived from customers outside the United States (international) was approximately 33% of total revenue. In 2016, revenue derived from customers outside the United States (international) was approximately 28% of total revenue.

Total long-lived assets by geographical region:

	As of December 31, 2017	As of December 31, 2016
	(In thousands)	
Americas	\$29,764	\$ 23,205
Europe	11,257	4,716
Asia Pacific	2,273	2,280
Total long lived assets	\$43,294	\$ 30,201
Percentage of long lived assets held outside of the		
Americas	31 %	23 %

9. Commitments and Contingencies

The Company leases its office facilities under non-cancelable operating leases that expire at various dates through October 2027. Rent expense for non-cancellable operating leases with free rental periods or scheduled rent increases is recognized on a straight-line basis 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 \$31.6 million. Improvement reimbursements from landlords of \$7.3 million are being amortized on a straight-line basis into rent expense over the terms of the leases. The difference between required lease payments and rent expense has been recorded as deferred rent.

Rent expense was \$18.9 million in 2017, \$13.8 million in 2016, and \$7.4 million in 2015. Deferred rent was \$19.0 million as of December 31, 2017 and \$10.2 million as of December 31, 2016.

Future minimum payments under all operating and capital lease agreements as of December 31, 2017, are as follows:

	Operating (in thousands)	Capital
2018	\$19,345	\$771
2019	19,752	290
2020	19,997	30
2021	21,433	—

Edgar Filing: HUBSPOT INC - Form 10-K

2022	21,729	—
Thereafter	99,644	—
Total	\$201,900	1,091
Less: Portion representing interest		(34)
Capital lease obligation		\$1,057

In January 2018, the Company entered into a new 18 year property lease in Dublin, Ireland, with an option to break the lease after 10 years, for approximately 13,000 square feet of space. The lease commenced in January 2018 and the Company will pay an aggregate of approximately \$8.5 million in rent over the initial 10 year lease period.

The Company has entered into certain non-cancelable arrangements (“Vendor Commitments”), which require the future purchase of goods or services.

Future minimum payments under all Vendor Commitments as of December 31, 2017, are as follows:

	Product related obligations (in thousands)	INBOUND event obligations
2018	15,852	475
2019	10,826	316
2020	1,500	316
2021	—	653
2022	—	653
Thereafter	—	653
Total	\$28,178	\$ 3,066

Legal Contingencies

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

10. 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 years ended December 31, 2017 and 2016:

	Cumulative		
	Translation		
	Investments	Unrealized Loss	Total
	(in thousands)		
Beginning balance at January 1, 2016	\$(417)	\$ (388)	\$(805)
Other comprehensive (loss) income before			
reclassifications	(172)	113	(59)
Amounts reclassified from accumulated other	—	—	—

comprehensive loss			
Ending balance at December 31, 2016	\$ (589)	\$ (275)	\$ (864)
Other comprehensive income (loss) before			
reclassifications	968	(161)	807
Amounts reclassified from accumulated other			
comprehensive loss			
Ending balance at December 31, 2017	\$379	\$ (436)	\$ (57)

11. Stockholders' Equity and Stock-Based Compensation

Common Stock Reserved—As of December 31, 2017 and 2016, the Company has authorized 500 million shares of common stock. The number of shares of common stock reserved for the vesting of RSUs, exercise of common stock options, and ESPP are as follows (in thousands):

	December 31, 2017	December 31, 2016
RSUs	2,085	2,264
Common stock options	2,315	2,709
ESPP	10	11
	4,410	4,984

Equity Incentive Plan —The Company’s 2007 Equity Incentive Plan (the “2007 Plan”) was terminated in connection with the IPO, and accordingly, no shares are available for issuance under the 2007 Plan. The 2007 Plan will continue to govern outstanding awards granted thereunder, The 2007 Plan provided for the grant of qualified incentive stock options and nonqualified stock options or other awards such as RSUs to the Company’s employees, officers, directors and outside consultants. The term of each option is fixed by the Company’s compensation committee and may not exceed 10 years from the date of grant. As of December 31, 2017, 1.7 million options to purchase common stock and 49 thousand RSUs remained outstanding under the 2007 Plan.

On September 25, 2014, the Company’s board of directors adopted and the Company’s stockholders approved the 2014 Stock Option and Incentive Plan (the “2014 Plan”). The 2014 Plan became effective upon the closing of the Company’s IPO. The Company initially reserved 1,973,551 shares of its common stock, or the Initial Limit, for the issuance of awards under the 2014 Plan. The 2014 Plan provides that the number of shares reserved and available for issuance under the plan automatically increases each January 1, beginning on January 1, 2015, by 5% of the outstanding number of shares of the Company’s common stock on the immediately preceding December 31 or such lesser number of shares as determined by the compensation committee. This number is subject to adjustment in the event of a stock split, stock dividend or other change in the Company’s capitalization. The term of each option is fixed by the Company’s compensation committee and may not exceed 10 years from the date of grant. As of December 31, 2017, 582 thousand options to purchase common stock and 2.0 million RSUs remained outstanding under the 2014 Plan.

Equity Compensation Expense —The Company’s equity compensation expense is comprised of awards of options to purchase common stock, RSUs, and stock issued under the Company’s ESPP.

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

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Options	\$4,948	\$5,202	\$6,349
ESPP	1,233	1,093	1,035
RSUs	41,136	26,380	13,924
Total stock-based compensation	\$47,317	\$32,675	\$21,308

	2017	2016	2015
	(in thousands)		
Cost of revenue, subscription	\$658	\$512	\$341
Cost of revenue, service	2,327	1,640	1,216
Research and development	12,816	8,828	6,327
Sales and marketing	19,016	13,352	7,658
General and administrative	12,500	8,343	5,766
Total stock-based compensation	\$47,317	\$32,675	\$21,308

Excluded from stock-based compensation expense is \$1.6 million of capitalized software development costs in 2017, \$1.2 million in 2016, and \$492 thousand in 2015.

Stock Options —The fair value of employee options is estimated on the date of each grant using the Black-Scholes option-pricing model with the following assumptions:

	Year Ended December 31,		
	2017	2016	2015
		1.38	1.36
		-	-
Risk-free interest rate (%)	1.74	2.40	1.53
		5.08	6.18
		-	-
Expected term (years)	5.18	6.21	6.22
		38.0	43.0
		-	-
Volatility (%)	39.4	43.0	51.6
Expected dividends	—	—	—

The weighted-average grant-date fair value of options granted was \$24.56 per share in 2017, \$16.97 per share in 2016, and \$16.53 per share in 2015.

The interest rate was based on the U.S. Treasury bond rate at the date of grant with a maturity approximately equal to the expected term. The expected term of options granted to employees was calculated using the simplified method, which represents the average of the contractual term of the option and the weighted-average vesting period of the option. The expected term of options

granted to nonemployees is equal to the remaining contractual term as of the measurement date. Expected volatility for the Company's common stock was based on an average of the historical volatility of a peer group of similar public companies. The assumed dividend yield is based upon the Company's expectation of not paying dividends in the foreseeable future. Forfeitures of share-based awards prior to vesting results in a reversal of previously recorded stock-compensation expense associated with such forfeited awards

Prior to the Company's IPO, the fair value of the Company's common stock was determined by the Board of Directors at each award grant date based upon a variety of factors, including the results obtained from independent third-party valuations, the Company's financial position and historical financial performance, the status of technological developments within the Company's products, the composition and ability of the engineering and management team, an evaluation of benchmark of the Company's competition, the climate in the marketplace, the illiquid nature of the common stock, arm's-length sales of the Company's capital stock (including redeemable convertible preferred stock), the effect of the rights and preferences of the preferred stockholders and the prospects of a liquidity event, among others. After the Company's IPO, the fair value of the Company's common stock is the closing price of the stock on the date of grant.

The stock option activity for the year ended December 31, 2017 is as follows:

	Options (in thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding—January 1, 2017	2,709	\$ 13.99	6.1	\$ 89,411
Granted	180	56.67		
Exercised	(543)	16.07		
Forfeited/expired	(31)	24.12		
Outstanding—December 31, 2017	2,315	16.69	5.3	\$ 165,974
Options vested or expected to vest—December 31, 2017	2,315	\$ 16.69	5.3	\$ 165,974
Options exercisable—December 31, 2017	1,945	\$ 11.39	4.8	\$ 149,803

Total unrecognized compensation cost related to the nonvested options was \$5.4 million at December 31, 2017. That cost is expected to be recognized over a weighted-average period of 2.2 years as of December 31, 2017.

Restricted Stock Units —RSUs vest upon achievement of a service condition and, prior to six months after the Company's IPO, a performance condition. As soon as practicable following each vesting date, the Company will issue to the holder of the RSUs the number of shares of common stock equal to the aggregate number of RSUs that have vested. Notwithstanding the foregoing, the Company may, in its sole discretion, in lieu of issuing shares of common stock to the holder of the RSUs, pay the holder an amount in cash equal to the fair market value of such shares of common stock. The service condition is a time-based condition met over a period of four years, with 25% met after one year, and then in equal monthly or quarterly installments over the succeeding three years, or over a period of four years, with equal quarterly installments over those four years. The performance condition was met six months following the Company's IPO. Upon completion of the Company's IPO the Company began recording stock-based compensation expense based on the grant-date fair value of the RSUs using the accelerated attribution method for RSUs granted prior to its IPO and using the straight-line method for RSUs granted following its IPO. The total

stock-based compensation expense expected to be recorded over the remaining life of outstanding RSUs is approximately \$102.3 million at December 31, 2017. That cost is expected to be recognized over a weighted-average period of 2.7 years as of December 31, 2017. As of December 31, 2017, there are 2.1 million RSUs expected to vest with an aggregate intrinsic value of \$184.1million. The total fair value of RSUs vested was approximately \$48.6 million in the year ended December 31, 2017, \$24.0 million in the year ended December 31, 2016, and \$11.9 million in the year ended December 31, 2015.

The following table summarizes the activity related to RSUs for the year ended December 31, 2017:

	RSUs Outstanding	
	Weighted-	
	Average	
	Grant	
	Date	
	Shares	Fair Value
	(in	Per Share
	thousands)	
Unvested and outstanding at January 1, 2017	2,264	\$ 42.04
Granted	1,189	64.59
Vested	(1,151)	42.24
Canceled	(217)	48.13
Unvested and outstanding at December 31, 2017	2,085	\$ 54.12

12. Employee Stock Purchase Plan

On September 25, 2014, the Company's board of directors adopted and the Company's stockholders approved the 2014 Employee Share Purchase Plan (the "ESPP"). The ESPP became effective upon the closing of the Company's IPO. The ESPP authorizes the issuance of up to a total of 1,409,988 shares of common stock to participating employees, and allows eligible employees to purchase shares of common stock at a 15% discount from the fair market value of the stock as determined on specific dates at six-month intervals. The offering periods generally start on the first trading day on or after January 1st and July 1st of each year.

In December 2017, the Company's board of directors amended and restated the ESPP. In conjunction with the amendment of the ESPP, the Company amended the offering periods, which will now commence on June 1 and November 1 of each year starting with the offering period beginning with offering period in June 2018.

The following table summarizes the activity related to ESPP:

		Weighted-	Total Cash
	Shares Issued	Average	Proceeds
	(in thousands)	Purchase Price	(in thousands)
2017	94	38.83	3,635
2016	70	38.98	2,721
2015	29	28.46	814

13. Income Taxes

(Loss) income before provision for income taxes was as follows:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
United States	\$(54,894)	\$(47,112)	\$(47,911)
Foreign	4,855	2,083	2,270
Total	\$(50,039)	\$(45,029)	\$(45,641)

The benefit (provision) for income taxes consists of the following:

	Year Ended December		
	31,	2016	2015
	(in thousands)		
Current income tax provision			
Federal	\$—	\$—	\$—
State	(144)	(95)	(61)
Foreign	(1,077)	(579)	(401)
Total current income tax provision	(1,221)	(674)	(462)
Deferred income tax benefit			
Federal	10,435	61	(10)
State	977	—	—
Foreign	134	80	60
Total deferred income tax benefit	11,546	141	50
Total income tax benefit (provision)	\$ 10,325	\$(533)	\$(412)

Edgar Filing: HUBSPOT INC - Form 10-K

The following reconciles the differences between income taxes computed at the federal statutory rate of 35% and the provision for income taxes:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Expected income tax benefit at the federal statutory rate	\$17,166	\$15,761	\$15,974
State taxes net of federal benefit	5,150	916	2,257
Stock-based compensation	10,939	(2,001)	(1,685)
Difference in foreign tax rates	988	415	482
U.S. tax credits	1,717	1,609	2,738
Convertible debt and acquisition	11,573	—	—
Federal rate change	(49,123)	—	—
Transition tax	(1,063)		
Change in valuation allowance	13,988	(16,413)	(19,421)
Other	(1,010)	(820)	(757)
Income tax benefit (provision)	\$10,325	\$(533)	\$(412)

On December 22, 2017, the United States of America signed tax legislation (the “2017 Act”) which enacts a wide range of changes to the U.S. corporate income tax system. The 2017 Act reduces the U.S. corporate tax rate to 21% effective in 2018, broadens the tax base and changes rules for expensing and capitalizing business expenditures, establishes a territorial tax system for foreign earnings as well as a minimum tax on certain foreign earnings, provides for a one-time transition tax on previously undistributed foreign earnings, and introduces new rules for the treatment of certain export sales.

At December 31, 2017, the Company has not completed the accounting for the tax effects of enactment of the 2017 Act; however, in certain cases, as described below, the Company has made a reasonable estimate of the effects on existing deferred tax balances and the one-time transition tax. For the items for which the Company was not able to determine a reasonable estimate, no net income tax expense or benefit was recognized.

The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21% for U.S. federal tax purposes. However, the Company is still analyzing certain aspects of the Act and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded related to the remeasurement of deferred tax balances was \$49.1 million, which was offset by a corresponding reduction in the valuation allowance.

The one-time transition tax is based on the Company’s total post-1986 earnings and profits (E&P) for which the Company previously deferred from U.S. income taxes. The one-time transition tax results in an estimated inclusion of \$6.9 million of foreign earnings in U.S. taxable income, which reduces U.S. federal and state net operating losses generated during 2017. The Company has not yet completed the calculation of the total post-1986 foreign E&P for these foreign subsidiaries, and therefore this estimate may change as additional clarifying and interpretative technical

guidance is issued related to the calculation of our one-time transition tax.

The changes included in the 2017 Act are broad and complex. The final transition impacts of the 2017 Act may differ from the above estimates, possibly materially, due to, among other things, changes in interpretations of the 2017 Act, any legislative action to address questions that arise because of the 2017 Act, actions taken by U.S. state governments and taxing authorities in response to the 2017 Act, any changes in accounting standards for income taxes or related interpretations in response to the 2017 Act, or any updates or changes to estimates that have been utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries. The Securities Exchange Commission has issued rules that allow for a measurement period of up to one year after the enactment date of the 2017 Act to finalize the recording of the related tax impacts. The Company currently anticipate finalizing and recording any resulting adjustments during 2018.

Edgar Filing: HUBSPOT INC - Form 10-K

Deferred Tax Assets and Liabilities —Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company’s deferred tax assets and liabilities were as follows:

	Year Ended December 31,	
	2017	2016
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$87,521	\$73,750
Research and investment credits	9,402	6,674
Accruals and reserves	6,627	6,699
Depreciation	911	744
Intangible assets	—	215
Stock-based compensation	4,146	8,115
Total deferred tax assets	\$108,607	\$96,197
Deferred tax liabilities:		
Intangible assets	(1,273)	—
Convertible debt	(5,664)	—
Capitalized costs	(4,648)	(4,843)
Total deferred tax liabilities	(11,585)	(4,843)
Valuation allowance	(96,630)	(91,132)
Net deferred tax assets	\$392	\$222

The Company reviews all available evidence to evaluate its recovery of deferred tax assets, including its recent history of accumulated losses in all tax jurisdictions over the most recent three years as well as its ability to generate income in future periods. The Company has provided a valuation allowance against its U.S. net deferred tax assets as it is more likely than not that these assets will not be realized given the nature of the assets and the likelihood of future utilization.

The valuation allowance increased by \$5.5 million in 2017, \$16.5 million in 2016 and \$19.4 million in 2015, primarily due to the increase in the U.S. net operating loss deferred tax asset. The Company does not expect any significant changes in its valuation allowance positions within the next 12 months.

At December 31, 2017, undistributed foreign earnings of approximately \$6.9 million have been taxed due to the one-time transition tax on previously undistributed foreign earnings required by the 2017 Act. For any future foreign earnings, the Company will generally be free of additional U.S. federal tax consequences due to a dividends received deduction implemented as part of the move to a territorial tax system for foreign subsidiary earnings. No provision has been made for additional deferred taxes related to any remaining historical outside basis differences in our non-U.S. subsidiaries, which could include U.S. state taxes and foreign withholding taxes. The Company continues to assess the impact of the 2017 Act on its indefinite reinvestment in these outside basis differences generated on or before December 31, 2017 and intends to finalize this assessment within the one-year measurement period as allowed for by the Securities and Exchange Commission.

The Company had federal and state net operating loss carryforwards of \$352.5 million and \$224.7 million, respectively at December 31, 2017, which expire at various dates through 2037

The Company had federal research and development credit carryforwards of \$5.8 million at December 31, 2017 that expire at various dates through 2037. The Company also has state research and investment credit carryforwards of \$2.5 million and \$756 thousand, respectively that expire at various dates through 2032.

Under Section 382 of the Internal Revenue Code of 1986, as amended, substantial changes in the Company's ownership may limit the amount of net operating loss carryforwards that could be utilized annually in the future to offset taxable income. Specifically, this limitation may arise in the event of a cumulative change in ownership of the Company of more than 50% within a three-year period. Any such annual limitation may significantly reduce the utilization of net operating loss carryforwards before they expire. The Company performed an analysis through December 31, 2016, and determined any potential ownership change under Section 382 during the year would not have a material impact on the future utilization of US net operating losses and tax credits. There was no material change to this conclusion in 2017. However, future transactions in the Company's common stock could trigger an ownership change for purposes of Section 382, which could limit the amount of net operating loss carryforwards and other attributes that could be utilized annually in the future to offset taxable income, if any. Any such limitation, whether as the result of sales of common stock by our existing stockholders or sales of common stock by the Company, could have a material adverse effect on results of operations in future years.

Uncertain Tax Positions —The Company accounts for uncertainty in income taxes using a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination by the tax authority, including resolutions of any related appeals or litigation processes, based on technical merit. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The following summarizes activity related to unrecognized tax benefits:

	Year Ended December 31,		
	2017	2016	2015
	(in thousands)		
Unrecognized benefit—beginning of the year	\$1,742	\$673	\$1,713
Gross increases—current period positions	983	1,069	171
Gross decrease—prior period positions	—	—	(1,211)
Unrecognized benefit—end of period	\$2,725	\$1,742	\$673

All of the gross unrecognized tax benefits represent a reduction to the research and development tax credit carryforward. The gross decrease to prior period positions, for the period ending December 31, 2015 is a result of the Company completing IRS documentation of all credits generated since inception.

All of the unrecognized tax benefits decrease deferred tax assets with a corresponding decrease to the valuation allowance. None of the unrecognized tax benefits would affect the Company's effective tax rate if recognized in the future.

The Company has elected to recognize interest and penalties related to uncertain tax positions as a component of income tax expense. No interest or penalties have been recorded through December 31, 2017.

The Company does not expect any significant change in its unrecognized tax benefits within the next 12 months.

The Company files tax returns in the United States, Ireland, Australia, Singapore, Japan, Germany and various state jurisdictions. All of the Company's tax years remain open to examination by major taxing jurisdictions to which the Company is subject, as carryforward attributes generated in past years may still be adjusted upon examination by the Internal Revenue Service or state and foreign tax authorities if they have or will be used in future periods. The Company is routinely examined by various taxing authorities. The IRS completed a federal income tax audit for the tax year 2013 during 2016. The completed federal income tax audit did not yield a material effect on the Company's financial condition or results of operations.

14. Employee Benefit Plan

In July 2008, the Company established a defined contribution savings plan under Section 401(k) of the Internal Revenue Code. This plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a portion of their annual compensation on a pretax basis, subject to legal limitations. Total

contributions were \$2.9 million in 2017, \$2.1 million in 2016, and \$1.2 million in 2015.

15. Quarterly Financial Results (unaudited)

	Fourth	Third	Second	First
	Quarter	Quarter	Quarter	Quarter
	(in thousands, except per share amounts)			
Year ended December 31, 2017				
Revenue	\$106,541	\$97,726	\$89,093	\$82,252
Cost of revenue	21,056	19,010	18,591	17,072
Gross profit	85,485	78,716	70,502	65,180
Net loss	(11,535)	(10,583)	(9,521)	(8,075)
Basic and diluted net loss per share	\$(0.31)	\$(0.29)	\$(0.26)	\$(0.22)
Year ended December 31, 2016				
Revenue	\$76,444	\$70,589	\$64,974	\$58,960
Cost of revenue	16,887	15,812	15,195	13,971
Gross profit	59,557	54,777	49,779	44,989
Net loss	(13,829)	(10,515)	(11,064)	(10,154)
Basic and diluted net loss per share	\$(0.39)	\$(0.30)	\$(0.32)	\$(0.29)

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief 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 Annual Report on Form 10-K. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2017, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Management's Report on Internal Control Over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or

under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, 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 and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

Our management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013).

Based on our assessment, management, with the participation of our Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2017, our internal control over financial reporting was effective based on those criteria.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report, which is included on under Item 8 of this annual report on Form 10-K

(c) 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 control over financial reporting 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, misstatements due to error or fraud may occur and not be detected.

(d) Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting occurred during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The complete response to this Item regarding the backgrounds of our executive officers and directors and other information required by Items 401, 405 and 407 of Regulation S-K will be contained in our definitive proxy statement for our 2018 Annual Meeting of Stockholders.

Code of Business Conduct and Ethics

We have adopted a code of business conduct and ethics that is applicable to all of our employees, officers and directors including our chief executive officer and senior financial officers, which is available on our website under “Investor Relations—Corporate Governance.”

ITEM 11. Executive Compensation

The information required by this Item is incorporated by reference herein to our definitive proxy statement for our 2018 Annual Meeting of Stockholders.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated by reference herein to our definitive proxy statement for our 2018 Annual Meeting of Stockholders.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated by reference herein to our definitive proxy statement for our 2018 Annual Meeting of Stockholders.

ITEM 14. Principal Accountant Fees and Services

The information required by this Item is incorporated by reference herein to our definitive proxy statement for our 2018 Annual Meeting of Stockholders.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules

(a) Documents Filed as Part of this Annual Report on Form 10-K

1. Financial Statements (included in Item 8 of this Annual Report on Form 10-K):

• Reports of Independent Registered Public Accounting Firms

• Consolidated Balance Sheets as of December 31, 2017 and 2016

• Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015

• Consolidated Statements of Comprehensive Loss for the years ended December 31, 2017, 2016 and 2015

• Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015

• Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017, 2016 and 2015

• Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Financial statements schedules are omitted as they are either not required or the information is otherwise included in the consolidated financial statements.

3. The exhibits required by Item 601 of Regulation S-K are listed in the Exhibit List on the following page and are incorporated herein.

ITEM 16. 10-K Summary

Not applicable.

EXHIBIT LIST

Exhibit number	Description of exhibit
3.1(1)	<u>Seventh Amended and Restated Certificate of Incorporation (as amended and currently in effect)</u>
3.2(2)	<u>Amended and Restated Bylaws (as currently in effect)</u>
4.1(3)	<u>Form of Common Stock Certificate</u>
4.2(4)	<u>Fourth Amended and Restated Investors' Rights Agreement between the Registrant and the investors named therein dated October 25, 2012</u>
4.3(5)	<u>Indenture, dated as of May 10, 2017, between HubSpot, Inc., and Wilmington Trust, National Association, as trustee</u>
4.4(5)	<u>Form of 0.25% Convertible Senior Notes due 2022 (included in Exhibit 4.3)</u>
10.1(6)	<u>Amended and Restated Lease between Jamestown Premier Davenport, LLC and HubSpot, Inc., executed December 14, 2015 and effective as of November 1, 2015; First Amendment to Amended and Restated Lease between Davenport Owner (DE) LLC and HubSpot, Inc., effective as of March 23, 2017</u>
10.2(7)	<u>Lease, dated February 22, 2016, among HubSpot Ireland Limited, HubSpot, Inc. and Hibernia REIT Plc and Agreement for Lease, dated November 6, 2015, among HubSpot Ireland Limited, HubSpot, Inc. and Hibernia REIT plc</u>
10.3(8)	<u>Lease dated April 23, 2015 between BCSP Cambridge Two Property LLC and HubSpot, Inc., amended as of August 10, 2016</u>
10.4(9)	<u>Lease dated October 7, 2016 between One Canal Park Massachusetts LLC and HubSpot, Inc.; First Amendment to Lease dated February 14, 2017 between One Canal Park Massachusetts, LLC and HubSpot, Inc.</u>
10.5(10)#	<u>Form of Indemnification Agreement between the Registrant and each of its Executive Officers and Directors</u>
10.6(11)#	<u>2007 Equity Incentive Plan and forms of restricted stock agreement and option agreements thereunder</u>
10.7**#	<u>2014 Stock Option and Grant Plan and forms of restricted stock and option agreements thereunder</u>
10.8(12)#	<u>2014 Employee Stock Purchase Plan</u>
10.9(13)#	<u>Senior Executive Cash Incentive Bonus Plan</u>
10.10(14)	<u>Form of Call Option Transaction Confirmation</u>
10.11(15)	<u>Form of Warrant Confirmation</u>

- 10.12**# Non-Employee Director Compensation Policy (as amended and currently in effect)
- 21.1** List of Subsidiaries
- 23.1** Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm
- 23.2** Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm
- 24.1** Power of Attorney (included on signature page)
- 31.1** Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2** Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1**ÿ Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS** XBRL Instance Document
- 101.SCH** XBRL Taxonomy Extension Schema Document
- 101.CAL** XBRL Taxonomy Extension Calculation Linkbase Document

Edgar Filing: HUBSPOT INC - Form 10-K

101.DEF** XBRL Taxonomy Extension Definition Linkbase Document

101.LAB** XBRL Taxonomy Extension Label Linkbase Document

101.PRE** XBRL Taxonomy Extension Presentation Linkbase Document

#Indicates a management contract or compensatory plan.

** Filed herewith.

The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Annual Report on Form 10-K and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. 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 any of them by reference.

- (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 Annual Report on Form 10-K filed on February 24, 2016.
- (3) Incorporated by reference to Exhibit 4.1 to HubSpot, Inc.’s Amendment No. 1 to Registration Statement on Form S-1 (SEC File No. 333-198333) filed on September 26, 2014.
- (4) Incorporated by reference to Exhibit 4.2 to HubSpot, Inc.’s Registration Statement on Form S-1 (SEC File No. 333-198333) filed on August 25, 2014.
- (5) Incorporated by reference to Exhibit 4.1 to HubSpot, Inc.’s Form 8-K filed on May 10, 2017.
- (6) Incorporated by reference to Exhibit 10.1 to HubSpot, Inc.’s Form 8-K filed on December 18, 2015 and to Exhibit 10.2 to HubSpot, Inc.’s Quarterly Report on Form 10-Q filed May 2, 2017.
- (7) Incorporated by reference to Exhibit 10.1 to HubSpot, Inc.’s Quarterly Report on Form 10-Q filed May 4, 2016.
- (8) Incorporated by reference to Exhibit 10.5 to HubSpot, Inc.’s Annual Report on Form 10-K filed on February 16, 2017.
- (9) Incorporated by reference to Exhibit 10.1 to HubSpot, Inc.’s Form 8-K filed on October 13, 2016 and to Exhibit 10.1 to HubSpot, Inc.’s Quarterly Report on Form 10-Q filed May 2, 2017.
- (10) Incorporated by reference to Exhibit 10.4 to HubSpot, Inc.’s Registration Statement on Form S-1 (SEC File No. 333-198333) filed on August 25, 2014.
- (11) Incorporated by reference to Exhibit 10.5 to HubSpot, Inc.’s Registration Statement on Form S-1 (SEC File No. 333-198333) filed on August 25, 2014.
- (12) Incorporated by reference to Exhibit 10.8 to HubSpot, Inc.’s Amendment No. 2 to Registration Statement on Form S-1 (SEC File No. 333-198333) filed on October 6, 2014.
- (13) Incorporated by reference to Exhibit 10.10 to HubSpot, Inc.’s Amendment No. 1 to Registration Statement on Form S-1 (SEC File No. 333-198333) filed on September 26, 2014.
- (14) Incorporated by reference to Exhibit 10.1 to HubSpot, Inc.’s Form 8-K filed on May 10, 2017.
- (15) Incorporated by reference to Exhibit 10.2 to HubSpot, Inc.’s Form 8-K filed on May 10, 2017.

90

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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, in the city of Cambridge, Commonwealth of Massachusetts, on the 13th day of February 2018.

HUBSPOT, INC.

By: /s/ Brian Halligan
Brian Halligan

Chief Executive Officer and Chairman

POWER OF ATTORNEY

We, the undersigned directors and officers of HubSpot, Inc. (the “Company”), hereby and severally constitute and appoint Brian Halligan, J.D. Sherman and John Kinzer and each of them singly, our true and lawful attorneys, with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, and to file any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing, requisite and necessary to be done in connection therewith, as fully to all intents and purposes as each of us might or could do in person and hereby ratifying and confirming all that said attorneys and each of them, or their substitutes, shall do or cause to be done by virtue of this Power of Attorney.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Brian Halligan Brian Halligan	Chief Executive Officer and Chairman (Principal Executive Officer)	February 13, 2018
/s/ John Kinzer John Kinzer	Chief Financial Officer (Principal Financial and Accounting Officer)	February 13, 2018
/s/ Dharmesh Shah Dharmesh Shah	Director and Chief Technology Officer	February 13, 2018
/s/ Ron Gill Ron Gill	Director	February 13, 2018
/s/ Julie Herendeen Julie Herendeen	Director	February 13, 2018
/s/ Lorrie Norrington Lorrie Norrington	Director	February 13, 2018
/s/ Michael Simon Michael Simon	Director	February 13, 2018
/s/ Jay Simons Jay Simons	Director	February 13, 2018
/s/ David Skok David Skok	Director	February 13, 2018
	/s/ Jill Ward Director Jill Ward	February 13, 2018

