HUBSPOT INC
Form 10-Q
November 02, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED September 30, 2016

OR

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

COMMISSION FILE NUMBER 001-36680

HubSpot, Inc.

(Exact name of registrant as specified in its charter)

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

25 First Street, 2nd Floor

Cambridge, Massachusetts, 02141

(Address of principal executive offices)

(888) 482-7768

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

There were 35,608,553 shares of the registrant's Common Stock issued and outstanding as of October 28, 2016.

HUBSPOT, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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PART I — Financial Information

ITEM 1. Financial Statements
HubSpot, Inc.

Unaudited Consolidated Balance Sheets

(in thousands)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 61,439	$ 55,580
Short-term investments	52,555	48,972
Accounts receivable — net of allowance for doubtful accounts of $520 and $371 at September 30, 2016 and December 31, 2015, respectively	30,436	25,142
Deferred commission expense	8,205	8,114
Prepaid hosting costs	1,240	3,047
Prepaid expenses and other current assets	10,187	4,899
Total current assets	164,062	145,754
Long-term investments	37,669	40,566
Property and equipment, net	29,041	18,161
Capitalized software development costs, net	5,840	4,655
Restricted cash	380	363
Other assets	985	1,007
Intangible assets, net	36	100
Goodwill	9,773	9,773
Total assets	$ 247,786	$ 220,379
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 3,004	$ 2,588
Accrued compensation costs	10,284	11,371
Other accrued expenses	17,383	12,313
Capital lease obligations	764	542
Deferred rent	207	86
Deferred revenue	83,328	64,407
Total current liabilities	114,970	91,307
Capital lease obligations, net of current portion	247	277
Deferred rent, net of current portion	8,849	6,345
Deferred revenue, net of current portion	918	732
Other long-term liabilities	644	10

Total liabilities	125,628	98,671
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Common stock	35	34
Additional paid-in capital	354,743	322,833
Accumulated other comprehensive loss	(533)	(805)
Accumulated deficit	(232,087)	(200,354)
Total stockholders' equity	122,158	121,708
Total liabilities and stockholders' equity	$ 247,786	$ 220,379

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

HubSpot, Inc.

Unaudited Consolidated Statements of Operations

(in thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Subscription	$66,505	$44,091	$182,357	$118,303
Professional services and other	4,084	3,620	12,166	10,514
Total revenue	70,589	47,711	194,523	128,817
Cost of Revenues:				
Subscription	10,655	8,470	29,550	22,894
Professional services and other	5,157	4,008	15,428	11,322
Total cost of revenues	15,812	12,478	44,978	34,216
Gross profit	54,777	35,233	149,545	94,601
Operating expenses:				
Research and development	12,100	8,128	33,182	23,787
Sales and marketing	41,193	30,868	115,531	81,057
General and administrative	11,435	9,527	31,674	25,782
Total operating expenses	64,728	48,523	180,387	130,626
Loss from operations	(9,951)	(13,290)	(30,842)	(36,025)
Other (expense) income:				
Interest income	224	131	604	241
Interest expense	(97)	(31)	(277)	(140)
Other (expense) income	(365)	(186)	(900)	387
Total other (expense) income	(238)	(86)	(573)	488
Loss before income tax provision	(10,189)	(13,376)	(31,415)	(35,537)
Income tax provision	(326)	(176)	(318)	(265)
Net loss	$(10,515)	$(13,552)	$(31,733)	$(35,802)
Net loss per share, basic and diluted	$(0.30)	$(0.40)	$(0.91)	$(1.09)
Weighted average common shares used in computing basic and diluted net loss per share:	35,393	33,819	35,038	32,901

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

HubSpot, Inc.

Unaudited Consolidated Statements of Comprehensive Loss

(in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	$(10,515)	$(13,552)	$(31,733)	$(35,802)
Other comprehensive loss:				
Foreign currency translation adjustment	(21)	(10)	109	(162)
Changes in unrealized gain (loss) on investments, net of income taxes of $(36) and $136 for the three and nine months ended September 30, 2016 and $0 for the three and nine months ended September 30, 2015	(108)	(77)	163	(237)
Comprehensive loss	$(10,644)	$(13,639)	$(31,461)	$(36,201)

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

HubSpot, Inc.

Unaudited Consolidated Statements of Cash Flows

(in thousands)

	For the Nine Months Ended September 30,	
	2016	2015
Operating Activities:		
Net loss	$(31,733)	$(35,802)
Adjustments to reconcile net loss to net cash and cash equivalents provided by (used in) operating activities		
Depreciation and amortization	7,992	5,511
Stock-based compensation	23,401	15,293
Provision for deferred income taxes	(165)	45
Amortization of bond premium discount	547	438
Noncash rent expense	2,693	211
Unrealized currency translation	(146)	(239)
Changes in assets and liabilities, net of acquisition		
Accounts receivable	(5,140)	(5,716)
Prepaid expenses and other assets	(3,386)	(1,277)
Deferred commission expense	(80)	(649)
Accounts payable	733	(84)
Accrued expenses	3,737	4,533
Deferred rent	(75)	379
Deferred revenue	18,715	14,294
Net cash and cash equivalents provided by (used in) operating activities	17,093	(3,063)
Investing Activities:		
Purchases of investments	(44,323)	(93,869)
Maturities of investments	43,388	4,000
Purchases of property and equipment	(13,350)	(2,182)
Capitalization of software development costs	(4,173)	(3,125)
Acquisition of a business	—	(600)
Restricted cash	—	(388)
Net cash and cash equivalents used in investing activities	(18,458)	(96,164)
Financing Activities:		
Secondary offering proceeds, net of offering costs paid of $583	—	33,669
Employee taxes paid related to the net share settlement of stock-based awards	(1,820)	(8,217)
Proceeds related to the issuance of common stock under stock plans	9,145	9,256
Repayments of capital lease obligations	(528)	(107)
Net cash and cash equivalents provided by financing activities	6,797	34,601
Effect of exchange rate changes on cash and cash equivalents	427	(286)
Net increase (decrease) in cash and cash equivalents	5,859	(64,912)
Cash and cash equivalents, beginning of period	55,580	123,721

Cash and cash equivalents, end of period	$61,439	$58,809
Supplemental cash flow disclosure:		
Cash and cash equivalents paid for interest	$166	$139
Cash and cash equivalents paid for income taxes	$623	$—
Non-cash investing and financing activities:		
Property and equipment acquired under capital lease	$720	$542
Capital expenditures incurred but not yet paid	$1,259	$—

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

HubSpot, Inc.

Notes to Unaudited 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, CRM, analytics, and reporting.

The Company is headquartered in Cambridge, Massachusetts, and has wholly-owned subsidiaries in Dublin, Ireland, which commenced operations in January 2013, in Sydney, Australia, which commenced operations in August 2014, in Singapore, which commenced operations in October 2015, and in Tokyo, Japan, which commenced operations in July 2016.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) applicable to interim periods, under the rules and regulations of the United States Securities and Exchange Commission (“SEC”). In the opinion of management, the Company has prepared the accompanying unaudited consolidated financial statements on a basis substantially consistent with the audited consolidated financial statements of the Company as of and for the year ended December 31, 2015, and these consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results of the interim periods presented. All intercompany balances and transactions have been eliminated in consolidation.

The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the entire year ending December 31, 2016. The year-end balance sheet data was derived from audited financial statements, but this Form 10-Q does not include all disclosures required under GAAP. Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted under the rules and regulations of the SEC.

These interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Company’s Annual Report on Form 10-K filed with the SEC on February 24, 2016. There have been no changes in the Company’s significant accounting policies from those that were disclosed in the Company’s Annual Report on Form 10-K that have had a material impact on our consolidated financial statements and related notes, except the addition of internal use software described in footnote 4.

Recent Accounting Pronouncements

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

In March 2016, the Financial Accounting Standards Board ("FASB") issued guidance that changes the accounting for 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. The guidance also allows for the employer to repurchase or sell more shares than required under local statutory regulation without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The guidance is effective in 2017 with early adoption permitted. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

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 August 2014, the FASB issued guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The amendments should reduce diversity in the timing and content of footnote disclosure. The guidance is effective for the annual period ending after December 15, 2016, and for the annual periods and interim periods thereafter with early adoption permitted. 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. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard now is effective for annual reporting periods beginning January 1, 2018. The FASB will permit companies to adopt the new standard early, but not before the original effective date of January 1, 2017. The Company is currently evaluating the impact of this guidance on the consolidated financial statements.

2. Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted net loss per share is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of this calculation, options to purchase common stock and restricted stock units (“RSUs”) are considered to be potential common stock equivalents.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	$ (10,515)	$ (13,552)	$ (31,733)	$ (35,802)
Weighted-average common shares outstanding — basic	35,393	33,819	35,038	32,901
Dilutive effect of share equivalents resulting from stock options and RSUs	—	—	—	—
Weighted-average common shares, outstanding — diluted	35,393	33,819	35,038	32,901
Net loss per share, basic and diluted	$ (0.30)	$ (0.40)	$ (0.91)	$ (1.09)

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 and RSUs 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.

As of September 30,	
2016	2015

	(in thousands)	
Options to purchase common shares	2,818	3,590
RSUs	2,364	1,569

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 September 30, 2016 and December 31, 2015.

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Money market funds	$32,307	$—	$ —	$32,307
Commercial paper	—	14,145	—	14,145
Corporate bonds	—	65,076	—	65,076
U.S. government agency obligations	—	11,003	—	11,003
Total	$32,307	$90,224	$ —	$122,531

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Money market funds	$32,014	$—	$ —	$32,014
Commercial paper	—	7,711	—	7,711
Corporate bonds	—	70,869	—	70,869
U.S. government agency obligations	—	10,958	—	10,958
Total	$32,014	$89,538	$ —	$121,552

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 September 30, 2016 and December 31, 2015, 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.

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.

The following tables summarize the composition of our short- and long-term investments September 30, 2016 at and December 31, 2015.

	September 30, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
	(in thousands)			

Commercial paper	$14,161	$ —	$ (16)	$ 14,145
Corporate bonds	65,156	11	(91)	65,076
U.S. government agency obligations	10,996	7	—	11,003
Total	$90,313	$ 18	$ (107)	$ 90,224

	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Fair Value
	(in thousands)			
Commercial paper	$7,721	$ —	$ (10)	$ 7,711
Corporate bonds	71,207	—	(338)	70,869
U.S. government agency obligations	10,998	—	(40)	10,958
Total	$89,926	$ —	$ (388)	$ 89,538

For all of our securities for which the amortized cost basis was greater than the fair value at September 30, 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

The contractual maturities of short-term and long-term investments held at September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016		December 31, 2015	
	Amortized Cost Basis	Aggregate Fair Value	Amortized Cost Basis	Aggregate Fair Value
	(in thousands)		(in thousands)	
Due within one year	$52,609	$ 52,555	$49,068	$ 48,972
Due after 1 year through 2 years	37,704	37,669	40,858	40,566
Total	$90,313	$ 90,224	$89,926	$ 89,538

4. Property and Equipment, Net

Property and equipment, net consists of the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Computer equipment and purchased software	$2,857	$ 1,237
Employee computer equipment	1,259	307
Furniture and fixtures	7,784	3,907
Office equipment	2,268	1,209
Leasehold improvements	22,810	17,086
Equipment under capital lease	2,129	1,409
Internal-use software	1,058	—
Total property and equipment	40,165	25,155
Less accumulated depreciation and amortization	(11,124)	(6,994)
Property and equipment, net	$29,041	$ 18,161

Depreciation and amortization expense on property and equipment was $1.6 million for the three months ended September 30, 2016, $4.1 million for the nine months ended September 30, 2016, $673 thousand for the three months ended September 30, 2015 and $2.0 million for the nine months ended September 30, 2015.

Internal use software

The Company capitalizes certain payroll and stock compensation costs incurred to develop functionality for the Company's billing platform. 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 amortized on a straight-line basis over an estimated useful life of five years.

5. Capitalized Software Development Costs

Capitalized software development costs consisted of the following:

	September 30, 2016	December 31, 2015
	(in thousands)	
Gross capitalized software development costs	$23,325	$ 18,737
Accumulated amortization	(17,485)	(14,082)
Capitalized software development costs, net	$5,840	$ 4,655

Capitalized software development costs are amortized on a straight-line basis over their estimated useful life of two years.

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The following table summarizes software development costs capitalized, stock-based compensation included in capitalized software development costs, and amortization of capitalized software development costs.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Software development costs capitalized	$1,988	$1,194	$4,588	$3,151
Stock-based compensation included in capitalized software development costs	$326	$150	$832	$315
Amortization of software development costs	$1,143	$1,248	$3,822	$3,405

6. Commitments and Contingencies

Contractual Obligations

There were no material changes in our commitments under contractual obligations, as disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2015 and related notes thereto contained in the Company's Annual Report on Form 10-K.

Legal Contingencies

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

7. 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 nine months ended September 30, 2016.

	Cumulative Translation Adjustment	Unrealized Loss on Investments	Total
	(in thousands)		
Beginning balance at January 1, 2016	$(417)	$ (388)	$(805)

Other comprehensive loss before reclassifications	109	163	272
Amounts reclassified from accumulated other comprehensive income	—	—	—
Ending balance at September 30, 2016	$(308)	$ (225)	$(533)

8. Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Options	$1,372	$1,554	$4,294	$4,825
RSUs	7,045	2,844	18,296	9,752
Employee stock purchase plan	278	112	811	716
Total stock-based compensation expense	$8,695	$4,510	$23,401	$15,293

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Cost of revenue, subscription	$139	$89	$363	$249
Cost of revenue, service	438	315	1,238	851
Research and development	2,341	1,568	6,371	4,830
Sales and marketing	3,473	1,078	9,368	5,278
General and administrative	2,304	1,460	6,061	4,085
Total stock-based compensation expense	$8,695	$4,510	$23,401	$15,293

Capitalized software development costs excluded from stock-based compensation expense is $326 thousand for the three months ended September 30, 2016, $832 thousand for the nine months ended September 30, 2016, $150 thousand for the three months ended September 30, 2015 and $315 thousand for the nine months ended September 30, 2015.

9. Segment Information and Geographic Data

The Company operates as one operating segment. Operating segments are defined as components of an enterprise for which separate financial information is regularly evaluated by the chief operating decision 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. Revenue and long-lived assets by geographic region, based on the physical location of the operations recording the sale or the asset, are as follows:

Revenues by geographical region:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Americas	$56,727	$40,308	$158,331	$110,371
Europe	11,092	6,275	29,538	16,020
Asia Pacific	2,770	1,128	6,654	2,426
Total	$70,589	$47,711	$194,523	$128,817

Percentage of revenues generated outside of the Americas	20 %	16 %	19 %	14 %

Total long-lived assets by geographical region:

	As of September 30, 2016	As of December 31, 2015
Americas	$ 21,410	$ 15,108
Europe	5,179	1,885
Asia Pacific	2,452	1,168
Total long-lived assets	$ 29,041	$ 18,161
Percentage of long-lived assets held outside of the Americas	26 %	17 %

10. Subsequent Event

On October 7, 2016, the Company entered into a new nine-year property lease for approximately 25,000 square feet, which further expands the Company's headquarters in Cambridge, MA. The term of the lease commences in March 2017 with respect to approximately 17,000 square feet of the premises, and in June 2019 with respect to approximately 8,000 square feet of the premises. The Company will pay an estimated $15 million in rent over the term of the lease.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on February 24, 2016. As discussed in the section titled "Special Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below.

Overview

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

While our platform can scale to the enterprise, we focus on selling to mid-market businesses because we believe we have significant competitive advantages attracting and serving them. We efficiently reach these businesses at scale through our proven inbound go-to-market approach and more than 3,400 marketing agency partners worldwide. Our platform is particularly suited to serving the needs of mid-market business-to-business companies. These mid-market businesses seek an integrated, easy to implement and easy to use solution to reach customers and compete with organizations that have larger marketing and sales budgets. As of September 30, 2016, we had 21,658 customers of varying sizes in more than 90 countries, representing almost every industry.

We derive most of our revenue from subscriptions to our cloud-based software platform and related professional services, which consist of customer on-boarding and training services. Subscription revenue accounted for 94% of our total revenue in the three and nine months ended September 30, 2016 and 92% of our total revenue in the three and nine months ended September 30, 2015. We sell three product plans at different base prices on a subscription basis, each of which includes our core platform and integrated applications to meet the needs of the various customers we serve. Customers pay additional fees if the number of contacts stored and tracked in the customer's database exceeds specified thresholds. We generate additional revenue based on the purchase of additional subscriptions, purchases of our add-on products and the number of account users, subdomains and website visits. Substantially all of our customers' subscriptions are one year or less in duration.

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

Most of our customers purchase on-boarding and training services which are designed to help customers enhance their ability to attract, engage and delight their customers using our platform. Professional services and other revenue accounted for 6% of our total revenue in the three and nine months ended September 30, 2016 and 8% of our total revenue in the three and nine months ended September 30, 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 software and related applications and rapid technological change in our industry. We believe that the growth of our business is dependent on many factors, including our ability to expand our customer base, increase adoption of our platform within existing customers, develop new products and applications to extend the functionality of our platform and provide a high level of customer service. We expect to increase our investment in sales and marketing as we continue to expand our sales teams, increase our marketing activities and grow our international operations. We also expect to increase our investment in research and development as we continue to introduce new products and applications to extend the functionality of our platform. We also intend to invest in maintaining a high level of customer service and support which we consider critical for our continued success. We plan to continue investing in our data center infrastructure and services capabilities in order to support continued future customer growth. We also expect to continue to incur additional general and administrative expenses as a result of both our growth and the infrastructure required to be a public company. We expect to use our cash flow from operations and the proceeds from our prior stock offerings to fund these growth strategies and do not expect to be profitable in the near term.

We believe that these investments will result in an increase in our subscription revenue base. This will result in revenue increasing faster than the increase in sales and marketing, research and development and general and administrative expenses, exclusive of stock-based compensation, as we reach economies of scale. With this increased operating leverage, we expect our gross and 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 Quarterly Report on Form 10-Q. 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. These key business metrics may be calculated in a manner different than similar key business metrics used by other companies.

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 marketing platform, either paid directly or through an agency partner. We do not include in total customers business entities or individuals with one or more paid subscriptions solely for our HubSpot Sales product, formerly Sidekick for Business. A single customer may have separate paid subscriptions for separate websites, but we count these as one customer if the subscriptions are managed by the same business entity or individual.

Average Subscription Revenue per Customer. We define average subscription revenue per customer during a particular period as subscription revenue from our total customers during the period divided by the average total customers during the same period. Average subscription revenue per customer for the three and nine months ended September 30, 2016 is presented in this Quarterly Report on Form 10-Q on an annualized basis.

Results of Operations for the Three and Nine Months Ended September 30, 2016 and 2015

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Subscription	$66,505	$44,091	$182,357	$118,303
Professional services and other	4,084	3,620	12,166	10,514
Total revenue	70,589	47,711	194,523	128,817
Cost of Revenues:				
Subscription	10,655	8,470	29,550	22,894
Professional services and other	5,157	4,008	15,428	11,322
Total cost of revenues	15,812	12,478	44,978	34,216
Gross profit	54,777	35,233	149,545	94,601
Operating expenses:				
Research and development	12,100	8,128	33,182	23,787
Sales and marketing	41,193	30,868	115,531	81,057
General and administrative	11,435	9,527	31,674	25,782
Total operating expenses	64,728	48,523	180,387	130,626
Loss from operations	(9,951)	(13,290)	(30,842)	(36,025)
Other (expense) income:				
Interest income	224	131	604	241
Interest expense	(97)	(31)	(277)	(140)
Other (expense) income	(365)	(186)	(900)	387
Total other (expense) income	(238)	(86)	(573)	488
Loss before income tax provision	(10,189)	(13,376)	(31,415)	(35,537)
Income tax provision	(326)	(176)	(318)	(265)
Net loss	$(10,515)	$(13,552)	$(31,733)	$(35,802)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Subscription	94 %	92 %	94 %	92 %

Professional services and other	6	8	6	8
Total revenue	100	100	100	100
Cost of revenue:				
Subscription	15	18	15	18
Professional services and other	7	8	8	9
Total cost of revenue	22	26	23	27
Gross profit	78	74	77	73
Operating expenses:				
Research and development	17	17	17	18
Sales and marketing	58	65	59	63
General and administrative	16	20	16	20
Total operating expenses	92	102	93	101
Loss from operations	(14)	(28)	(16)	(28)
Total other (expense) income	—	—	—	—
Loss before income tax provision	(14)	(28)	(16)	(28)
Income tax provision	—	—	—	—
Net loss	(15)%	(28)%	(16)%	(28)%

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

Three Months and Nine Months Ended September 30, 2016 Compared to the Three Months and Nine Months Ended September 30, 2015

Revenue

(dollars in thousands)	Three Months Ended September 30, 2016	2015	$ Change	% Change	Nine Months Ended September 30, 2016	2015	$ Change	% Change
Revenues:								
Subscription	$66,505	$44,091	$22,414	51 %	$182,357	$118,303	$64,054	54 %
Professional services and other	4,084	3,620	464	13 %	12,166	10,514	1,652	16 %
Total revenue	$70,589	$47,711	$22,878	48 %	$194,523	$128,817	$65,706	51 %

Three month change

Subscription revenue increased during the three months ended September 30, 2016 compared to the same period in 2015 primarily due to the increase in total customers, which grew from 16,854 as of September 30, 2015 to 21,658 as of September 30, 2016, and an increase in average subscription revenue per customer, which grew from $10,607 for the three months ended September 30, 2015 to $12,320 for the three months ended September 30, 2016. The growth in total 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 customers increasing their use of our products, existing customers purchasing additional subscriptions and add-on products, and new customers purchasing our higher price product plans.

The 13% increase in professional services and other revenue resulted primarily from the delivery of on-boarding and training services for subscriptions sold.

Nine month change

Subscription revenue increased during the nine months ended September 30, 2016 compared to the same period in 2015 primarily due to the increase in total customers, which grew from 16,854 as of September 30, 2015 to 21,658 as of September 30, 2016, and an increase in average subscription revenue per customer, which grew from $10,206 for the nine months ended September 30, 2015 to $11,946 for the nine months ended September 30, 2016. The growth in total 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 customers increasing their use of our products, existing customers purchasing additional subscriptions and add-on products, and new customers purchasing our higher price product plans.

The 16% increase in professional services and other revenue resulted primarily from the delivery of on-boarding and training services for subscriptions sold.

Cost of Revenue, Gross Profit and Gross Margin Percentage

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Total cost of revenue	$15,812	$12,478	$3,334	27 %	$44,978	$34,216	$10,762	31 %
Gross profit	$54,777	$35,233	$19,544	55 %	$149,545	$94,601	$54,944	58 %
Gross margin percentage	78 %	74 %			77 %	73 %		

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Total cost of revenue for the nine months ended September 30, 2016 increased compared to the same period in 2015 primarily due to an increase in subscription and hosting costs, employee-related costs, amortization of developed technology, and allocated overhead expenses. The increase in gross margin was primarily driven by improved leverage of our hosting costs relative to growth in subscription revenue.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Subscription cost of revenue	$10,655	$8,470	$2,185	26 %	$29,550	$22,894	$6,656	29 %
Percentage of subscription revenue	16 %	19 %			16 %	19 %		

The increase in subscription cost of revenue for the three and nine month periods ended September 30, 2016 compared to the same periods in 2015 was primarily due to the following:

	Change Three Months	Nine Months
	(in thousands)	
Subscription and hosting costs	$937	$2,671
Employee-related costs	909	2,459
Allocated overhead expenses	370	946
Capitalized software amortization	(31)	580
	$2,185	$6,656

Three month change

Subscription and hosting costs increased due to growth in our customer base from 16,854 at September 30, 2015 to 21,658 at September 30, 2016. 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. 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 decreased due to the acceleration of amortization for certain features during the three-months ended September 2015.

Nine month change

Subscription and hosting costs increased due to growth in our customer base from 16,854 at September 30, 2015 to 21,658 at September 30, 2016. 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. 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 increase the functionality of our platform.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Professional services and other cost of revenue	$5,157	$4,008	$1,149	29 %	$15,428	$11,322	$4,106	36 %
Percentage of professional services and other revenue	126 %	111 %			127 %	108 %		

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The increase in professional services and other cost of revenue for the three and nine month periods ended September 30, 2016 compared to the same periods in 2015 was primarily due to the following:

	Change Three Months	Change Nine Months
	(in thousands)	
Employee-related costs	$781	$2,860
Allocated overhead expenses	368	1,246
	$1,149	$4,106

Three month change

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

Nine month change

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

Research and Development

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Research and development	$12,100	$8,128	$ 3,972	49 %	$33,182	$23,787	$ 9,395	39 %
Percentage of total revenue	17 %	17 %			17 %	18 %		

The increase in research and development expense for the three and nine month periods ended September 30, 2016 compared to the same periods in 2015 was primarily due to the following:

	Change Three Months	Change Nine Months

	(in thousands)	
Employee-related costs	$3,615	$ 8,589
Allocated overhead expenses	357	806
	$3,972	$ 9,395

Three month change

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, 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.

Nine month change

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, 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

(dollars in thousands)	Three Months Ended September 30, 2016	2015	$ Change	% Change	Nine Months Ended September 30, 2016	2015	$ Change	% Change
Sales and marketing	$41,193	$30,868	$10,325	33 %	$115,531	$81,057	$34,474	43 %
Percentage of total revenue	58 %	65 %			59 %	63 %		

The increase in sales and marketing expense for the three and nine month periods ended September 30, 2016 compared to the same periods in 2015 was primarily due to the following:

	Change Three Months	Nine Months
	(in thousands)	
Employee-related costs	$10,763	$28,196
Allocated overhead expenses	2,258	5,634
Partner commissions	843	3,515
Marketing programs	(3,539)	(2,871)
	$10,325	$34,474

Three month change

Employee-related costs increased as a result of increased headcount as we continue to expand our selling and marketing organizations to grow our customer base. Allocated overhead expenses increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount. Partner commissions increased as a result of increased revenue generated through our marketing agency partners. The increase in partner commissions earned by our partners during the current period was partially offset by the expiration of our obligation to pay certain historical commissions. The expiration of these obligations was in accordance with the agreements in place with our partners. Marketing programs decreased due to the timing of our INBOUND event, which occurred in September 2015, and will be held in November 2016.

Nine month change

Employee-related costs increased as a result of increased headcount as we continue to expand our selling and marketing organizations to grow our customer base. Allocated overhead expenses increased due to expanding our leased space and infrastructure as we continue to grow our business and expand headcount. Partner commissions increased as a result of increased revenue generated through our marketing agency partners. The increase in partner commissions earned by our partners during the current period was partially offset by the expiration of our obligation to pay certain historical commissions. The expiration of these obligations was in accordance with the agreements in place with our partners. Marketing programs decreased due to the timing of our INBOUND event, which occurred in September 2015, and will be held in November 2016.

General and Administrative

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
General and administrative	$11,435	$9,527	$ 1,908	20 %	$31,674	$25,782	$ 5,892	23 %
Percentage of total revenue	16 %	20 %			16 %	20 %		

The increase in general and administrative expense for the three and nine month periods ended September 30, 2016 compared to the same periods in 2015 was primarily due to the following:

	Three Months	Nine Months
	(in thousands)	
Employee-related costs	$1,853	$ 4,596
Allocated overhead expenses	264	1,061
Customer credit card fees	183	530
Professional fees	(392)	(295)
	$1,908	$ 5,892

Three month change

Employee-related costs increased as a result of increased headcount as we continue to grow our business and require additional personnel to support our expanded operations 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. Professional fees decreased due to a reduction in legal fees.

Nine month change

Employee-related costs increased as a result of increased headcount as we continue to grow our business and require additional personnel to support our expanded operations 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. Professional fees decreased due to a reduction in legal fees.

Other (expense) income

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Other (expense) income	$(238)	$(86)	$ (152)	177 %	$(573)	$488	$(1,061)	217 %
Percentage of total revenue	*	*			*	*		

*not meaningful

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

Income tax provision

(dollars in thousands)	Three Months Ended September 30, 2016	2015	$ Change	% Change	Nine Months Ended September 30, 2016	2015	$ Change	% Change
Income tax provision	$(326)	$(176)	$ (150)	85 %	$(318)	$(265)	$ (53)	20 %
Effective tax rate	*	*			*	*		

*not meaningful

Income tax provision consists of current and deferred taxes for U.S. and foreign income taxes. 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 and our common stock offerings. In connection with our secondary offering in March 2015, we received aggregate net proceeds of $33.7 million. Additionally, we have access to a $35 million undrawn line of credit that expires in March 2017.

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 nine months ended September 30, 2016 and 2015.

	Nine Months Ended September 30,	
	2016	2015
	(in thousands)	
Cash and cash equivalents	$61,439	$58,809
Working capital	49,092	59,243
Net cash and cash equivalents provided by (used in) operating activities	17,093	(3,063)
Net cash and cash equivalents used in investing activities	(18,458)	(96,164)
Net cash and cash equivalents provided by financing activities	6,797	34,601

Our cash and cash equivalents at September 30, 2016 were held for working capital purposes. We believe our working capital is sufficient to support our operations for at least the next 12 months. At September 30, 2016, $16.5 million of our cash and cash equivalents was held in accounts outside the United States. A portion of these funds would be subject to U.S. federal taxation if repatriated, with such tax liability partially offset by foreign tax credits. Any potential tax impact of repatriating these funds would not be material to the financial statements. We do not intend to repatriate these funds.

Net Cash and Cash Equivalents Provided by Operating Activities

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

Net cash and cash equivalents provided by operating activities during the nine months ended September 30, 2016 primarily reflected our net loss of $31.7 million offset by non-cash expenses that included $8.0 million of depreciation and amortization, $23.4 million in stock-based compensation, $2.7 million of non-cash rent expense and $547 thousand amortization of bond premium. Working capital sources of cash and cash equivalents included an $18.7 million increase in deferred revenue primarily resulting from the growth in the number of customers invoiced during the period, a $3.7 million increase in accrued expenses, and a $733 thousand increase in accounts payable. These sources of cash and cash equivalents were offset by a $5.1 million increase in accounts receivable as a result of increased billings to customers consistent with the overall growth of the business and a $3.4 million increase in prepaid expenses related to increased activity consistent with the growth of the business.

Net cash and cash equivalents used in operating activities during the nine months ended September 30, 2015 primarily reflected our net loss of $35.8 million and $239 thousand of unrealized currency translation, offset by non-cash expenses that included $5.5 million of depreciation and amortization, $15.3 million in stock-based compensation, $211 thousand of non-cash rent expense and $438 thousand amortization of bond premium. Working capital sources of cash and cash equivalents included a $14.3 million increase in deferred revenue primarily resulting from the growth in the number of customers invoiced during the period, a $4.5 million increase in accrued expenses, and a $379 thousand increase in deferred rent. These sources of cash and cash equivalents were offset by a $5.7 million increase in accounts receivable as a result of increased billings to customers consistent with the overall growth of the business, a $84 thousand decrease in accounts payable, $649 thousand increase in deferred commissions and a $1.3 million increase in prepaid expenses related to increased activity consistent with the growth of the business.

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 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 nine months ended September 30, 2016 consisted primarily of $44.3 million purchases of investments, $13.4 million of purchased property and equipment and $4.2 million of capitalized software development costs. These uses of cash were offset by $43.4 million received related to the maturity of investments.

Net cash and cash equivalents used in investing activities during the nine months ended September 30, 2015 consisted primarily of $93.9 million of purchases of investments, $2.2 million of purchased property and equipment, $600 thousand used to acquire a business, and $3.1 million of capitalized software development costs. These uses of cash were offset by $4.0 million received related to maturity of investments.

Net Cash and Cash Equivalents Provided by Financing Activities

Our financing activities have consisted primarily of our stock offerings, the issuance of common stock under 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 nine months ended September 30, 2016, cash provided by financing activities consisted primarily of $9.1 million of proceeds related to issuance of common stock under stock plans. This source of cash was offset by $1.8 million used for payment of employee taxes related to the net share settlement of stock-based awards and $528 thousand used for repayments of capital lease obligations.

For the nine months ended September 30, 2015, cash provided by financing activities consisted primarily of $33.7 million of net proceeds received from the issuance of common stock and $9.3 million of proceeds received from the issuance of common stock under stock plans. These sources of cash were offset by $8.2 million used for payment of employee taxes related to the net share settlement of stock-based awards.

Contractual Obligations and Commitments

As of September 30, 2016, there were no material changes in our contractual obligations and commitments from those disclosed in the Annual Report on Form 10-K filed with the SEC on February 24, 2016.

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

During the nine months ended September 30, 2016, we had no material off-balance sheet arrangements, exclusive of operating leases and indemnifications of officers, directors and employees for certain events or occurrences while the officer, director or employee is, or was, serving at our request in such capacity.

Item 3.