

**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, 2019

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: 001-37924

BlackLine, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

46-3354276
(I.R.S. Employer
Identification Number)

21300 Victory Boulevard, 12th Floor
Woodland Hills, CA 91367
(Address of principal executive offices, including zip code)

(818) 223-9008
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	BL	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

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 if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange 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 Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, based on the closing price of a share of the registrant's common stock on June 30, 2019 as reported by the NASDAQ Global Select Market on such date was \$2.408 billion. 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.

At February 21, 2020, 56,300,027 shares of the registrant's common stock, \$0.01 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information called for by Part III of this Annual Report on Form 10-K where indicated are hereby incorporated by reference from the Definitive Proxy Statement for the registrant's Annual Meeting of Stockholders to be held in 2020, which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year ended December 31, 2019.

BLACKLINE, INC.
2019 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

	<u>Page No.</u>
PART I	
Item 1. Business	3
Item 1A. Risk Factors	10
Item 1B. Unresolved Staff Comments	32
Item 2. Properties	32
Item 3. Legal Proceedings	32
Item 4. Mine Safety Disclosures	32
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	33
Item 6. Selected Financial Data	35
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	52
Item 8. Financial Statements and Supplementary Data	54
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	92
Item 9A. Controls and Procedures	92
Item 9B. Other Information	92
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	93
Item 11. Executive Compensation	93
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	93
Item 13. Certain Relationships and Related Transactions, and Director Independence	93
Item 14. Principal Accounting Fees and Services	93
PART IV	
Item 15. Exhibits, Financial Statement Schedules	94
Item 16. Form 10-K Summary	97
Signatures	98

PART I

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, which statements involve substantial risk and uncertainties. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “intend,” “potential,” “would,” “continue,” “ongoing” or the negative of these terms or other comparable terminology. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including, but not limited to, statements regarding future financial and operational performance; statements concerning growth strategies including extension of distribution channels and strategic relationships, product innovation, international expansion, customer growth and expansion, customer service initiatives, expectations regarding contract size and increased focus on strategic products, expectations for hiring new talent and expanding our sales organization; our ability to accurately forecast revenue and appropriately plan expenses and investments; the demand for and benefits from the use of our current and future solutions; market acceptance of our solutions; and changes in the competitive environment in our industry and the markets in which we operate. These statements are based upon our historical performance and our current plans, estimates and expectations and are not a representation that such plans, estimates, or expectations will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management’s good faith beliefs and assumptions as of that time with respect to future events, and are subject to risks and uncertainty. If any of these risks or uncertainties materialize or if any assumptions prove incorrect, actual performance or results may differ materially from those expressed in or suggested by the forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainty, and assumptions that are difficult to predict, including those identified below, under “Part II-Other Information, Item 1A. Risk Factors” and elsewhere herein. Forward-looking statements should not be read as a guarantee of future performance or results, and you should not place undue reliance on such statements. Furthermore, we undertake no obligation to revise or update any forward-looking statements for any reason.

Unless the context otherwise requires, the terms “BlackLine, Inc.,” “the Company,” “we,” “us” and “our” in this Annual Report on Form 10-K refer to the consolidated operations of BlackLine, Inc. and its consolidated subsidiaries as a whole, references to “Silver Lake Sumeru” refers to either or both of Silver Lake Sumeru Fund, L.P. and Silver Lake Technology Investors Sumeru, L.P., and references to “Iconiq” refer to any or all of Iconiq Strategic Partners, L.P., ICONIQ Strategic Partners-B, L.P. and Iconiq Strategic Partners Co-Invest, L.P., BL Series. We refer to Iconiq, Therese Tucker, and Mario Spanicciati collectively as our Principal Stockholders.

Item 1. *Business*

Overview

We have created a comprehensive cloud-based software platform designed to transform and modernize accounting and finance operations for organizations of all types and sizes. Our secure, scalable platform supports critical accounting processes such as the financial close, account reconciliations, intercompany accounting, and controls assurance. By introducing software to automate these processes and to enable them to function continuously, we empower our customers to improve the integrity of their financial reporting, increase efficiency in their accounting and finance processes and enhance real-time visibility into their results and operations.

Critical accounting and finance processes underlie the integrity of an organization’s financial reports. The lack of effective accounting and finance tools can result in inefficient and cumbersome processes and, in some cases, accounting errors, restatements and write-offs, as well as material weaknesses and significant deficiencies. Traditional enterprise resource planning, or ERP, systems do not generally provide effective solutions for processes handled outside of an organization’s general ledger, such as balance sheet account reconciliation, intercompany transaction accounting and the broader financial close process. Many organizations also use multiple ERPs and other financial systems without a platform to efficiently integrate them. As a result, to manage these tasks, organizations rely on spreadsheets and other error-prone and labor-intensive processes that are unsuited for the increasing regulatory complexity and transaction volumes encountered by many modern businesses. We believe that we are creating a new category of powerful cloud-based software that is capable of automating and streamlining accounting and finance operations, in a manner that complements and supports traditional ERP systems. We believe our customers benefit from cost savings through improvements in process management and staff productivity, in addition to managing a faster financial close.

Our mission is to transform how accounting and finance departments operate. Our approach modernizes what historically has been done through batch processing and manual controls typically applied only during the month, quarter or year-end financial close, and delivers dynamic workflows embedded within a real-time, highly automated framework, a process we refer to as “continuous accounting.” It also enables up-to-date analytics, provides industry-benchmarked metrics and is designed to help customers run more efficiently while achieving greater accuracy, control and transparency. We believe the need for our software has been driven by growing business and information technology complexities, transaction volumes and expanding regulatory requirements. Our software integrates with, and obtains data from, more than 30 different ERP systems, including NetSuite, Oracle, SAP, and Workday, as well as many other financial systems and applications such as bank accounts, sub-ledgers and in-house databases.

We are a holding company and conduct our operations through our wholly-owned subsidiary, BlackLine Systems, Inc. (“BlackLine Systems”). BlackLine Systems funded its business with investments from our founder and cash flows from operations until September 3, 2013. On September 3, 2013, we acquired BlackLine Systems, and Silver Lake Sumeru and Iconiq acquired a controlling interest in us, which we refer to as the “2013 Acquisition.” The 2013 Acquisition was accounted for as a business combination under accounting principles generally accepted in the United States (“GAAP”) and resulted in a change in accounting basis as of the date of the 2013 Acquisition.

On August 31, 2016 we acquired Runbook Company B.V. (“Runbook”), which is referred to as the “Runbook Acquisition.”

Our platform consists of eight core cloud-based products, including Transaction Matching, Account Reconciliations, Consolidation Integrity Manager, Daily Reconciliations, Journal Entry, Variance Analysis, Task Management, and Compliance. Customers typically purchase these products in packages that we refer to as solutions, but they have the option to purchase these products individually. Current solutions include Balance Sheet Integrity, Close Process Management, Accounting Process Automation, Finance Transformation, Intercompany Hub and Smart Close.

The BlackLine Solution

We provide a powerful cloud-based software platform designed to automate and streamline accounting and finance operations. The key elements of our solutions include:

Comprehensive Platform

We offer an integrated suite of applications that delivers a broad range of capabilities that would otherwise require the purchase and use of multiple products to support critical accounting processes such as the financial close, account reconciliations, intercompany accounting, and controls assurance.

The technology underpinning our platform includes a comprehensive base of accounting-specific business logic and rules engines, which enable our customers to implement continuous accounting.

Enterprise Integration

Our platform provides simple, secure and automated tools and integrations to transfer data to and from a range of enterprise-wide processes and systems, including ERPs, financial systems and in-house databases, and other custom applications and data. Our platform integrates with over 30 ERP systems, including NetSuite, Oracle, SAP, and Workday. In addition, for companies with multiple systems and complex needs, we can connect with any number of general ledger systems simultaneously, resolving many of the issues associated with consolidating data across systems.

Independence

Our platform is not dependent on any single operating system and works with most major ERP systems our customers may use. Our cross-system functionality allows us to reach a broader group of customers. We are also able to focus on and innovate for the needs of our customers irrespective of updates or changes in their existing systems. We believe this independence provides us with a competitive advantage in the industry over traditional methods.

Ease of Use

Our platform is designed by accountants, for accountants, to be intuitive and easy to use. We strive to enable any user to rapidly implement our platform to manage their accounting and finance activities, from the simplest to the most sophisticated tasks. Our user-friendly interface provides clear visualization of accounting and finance data, enables user collaboration and streamlines business processes.

Innovation

Our ability to develop innovative products has been a key driver of our success and organic growth. Through a history and culture of thought leadership, we have created a new category of powerful software that automates and streamlines antiquated, manual accounting processes to better meet our clients' diverse and rapidly changing needs, and we continue to focus on providing advanced solutions to time and labor intensive accounting practices.

Security

Our platform and services incorporate industry best practices and meet internationally recognized standards with respect to information security management. We have implemented and maintain our certified Information Security Management System in accordance with the ISO/IEC 27001 standard requirements. We meet a breadth of requirements for our security control environment, including information security policies, organization of information security, human resource security, access control, cryptography, physical and environmental security, operations security, communications security, information security incident management, and information security aspects of business continuity management. In our continued commitment to customer trust, transparency, and security in service, we provide customers independently validated testing and evaluation of our control environment through issued reports and certifications.

Key Benefits

Our platform is designed to provide the following benefits to our customers:

Flexibility and scalability

Our unified cloud platform is designed for modern business environments and has broad applicability across large and small organizations in almost any industry. The platform supports complex corporate structures, provides integration across all core financial systems, manages multiple currencies and languages, and scales to support high transaction volumes.

Embedded controls and workflow

Our platform was designed for the complex global regulatory environment. Our platform embeds key controls within standardized, repeatable and well-documented workflows, which are designed to result in substantially reduced risk of non-compliance or negative audit findings, greater tolerance for regulatory complexity and increased confidence in financial reports.

Real-time visibility

We provide users with real-time visibility into the status, progress and quality of their accounting processes. With configurable dashboards, user-defined reporting and the ability to drill down to individual reconciliations, journals and tasks, users can track open items, identify bottlenecks within a process or intervene to prevent mistakes.

Automation and efficiency

Our platform can ingest data from a variety of sources, including ERP systems and other data repositories, and apply powerful, rules-driven automation to reconciliations, journals and transactions. This streamlines accounting processes, minimizes manual data entry and improves individual productivity to help ensure that accounting processes are completed on time. As a result, this automation allows users to focus on value-added activities instead of process management.

Continuous processing

Our platform helps organizations embed quality control, compliance and financial integrity into their day-to-day processes rather than rely on the traditional process of validating financial information at the end of each period. Activities such as account reconciliation and variance analysis can be performed in real-time, thus reducing the risk of errors and creating a more agile accounting environment.

Customers

Our customers include multinational corporations, large domestic enterprises and mid-market companies across a broad array of industries. These businesses include publicly-listed entities and privately-owned enterprises, as well as non-profit entities. At December 31, 2019, we had over 267,000 individual users across more than 3,000 customers exclusive of on-premise software. We define a customer as an entity with an active subscription agreement as of the measurement date. In situations where an organization has multiple subsidiaries or divisions, each entity that is invoiced as a separate entity is treated as a separate customer. However, where an existing customer requests its invoice be divided for the sole purpose of restructuring its internal billing arrangement without any incremental increase in revenue, such customer continues to be treated as a single customer.

Products and Services

Our platform consists of eight core cloud-based products, including Transaction Matching, Account Reconciliations, Consolidation Integrity Manager, Daily Reconciliations, Journal Entry, Variance Analysis, Task Management, and Compliance. Customers typically purchase these products in packages that we refer to as solutions, but they have the option to purchase these products individually. Current solutions include Balance Sheet Integrity, Close Process Management, Accounting Process Automation, Finance Transformation, Intercompany Hub, and Smart Close.

Reconciliation Management

The process of verifying and validating transactions, balances and consolidated financial results is referred to as account reconciliation. Our Reconciliation Management solution provides a framework for the reconciliation process, allowing users to build integrity checks and automation into the entire end-to-end work flow. The solution includes:

- ***Account Reconciliations*** provides a centralized workspace from which users can collaborate to complete account reconciliations. Features include standardized templates, workflows for review and approval, linkage to policies and procedures, and integrated storage of supporting documentation. The product automates otherwise manual activities in the reconciliation process, significantly reducing time and effort and increasing productivity. It also enhances internal controls by facilitating the appropriate segregation of duties, simplifying reconciliation audits and adding transparency and visibility to the reconciliation process.
- ***Transaction Matching*** analyzes and reconciles high volumes of individual transactions from different sources of data based upon user-configured logic. Our rules engine automatically identifies exceptions, errors, missing data, and variances within massive data sets. The matching engine processes millions of records per minute, can be used with any type of data and allows customers to reconcile transactions in real-time.
- ***Consolidation Integrity Manager*** manages the automated system-to-system tie-out process that occurs during the consolidation phase of the financial close. Companies with multiple ERPs utilize a consolidation system to produce their consolidated financial results. Because these systems contain and produce information that changes continually and requires constant adjustments, a final tie-out that is typically handled manually in a spreadsheet is necessary prior to publishing results. This product automates the tie-out process, aggregating balances from dozens or hundreds of different systems and allowing users to identify exceptions and create adjustments quickly.
- ***Daily Reconciliations*** narrows the scope of a reconciliation to a single day's transactions or balance detail. Users can then perform their analysis in minutes per day, rather than attempting to review an entire month's worth of activity in a limited time during the period-end close. Some industries, such as banking, require that organizations track the creation and certification of daily reconciliations. Daily reconciliations are a prime example of continuous accounting in action.

Financial Close Management

The collection of processes by which organizations reconcile, consolidate and report on their financial information at the end of each period is referred to as the financial close. Our Financial Close Management solution allows customers to manage the key steps within the close, applying automation where possible, and ensure that tasks are properly completed

and reviewed. This solution includes the components of the Reconciliation Management solution, as well as the following products:

- **Task Management** enables users to create and manage processes and task lists. The product provides automatic and recurring task scheduling, includes configurable workflow and provides a management console for accounting and finance projects. Though most commonly used with the financial close, users can create task lists and projects for hundreds of different use cases ranging from external audits to environmental impact surveys.
- **Journal Entry** allows users to manually or automatically generate, review and post manual journal entries. Journals can be automatically allocated across multiple business units and calculated based on complex, client-defined logic. More importantly, the addition of validation and approval checkpoints helps ensure the integrity of information passed to other financial applications. Customers can use the Journal Entry product to pass information to hundreds of different ERPs and subsystems in a configurable, easily consumable format.
- **Variance Analysis** provides “always-on” monitoring and automatically identifies anomalous fluctuations in balance sheet and income statement account balances. Once an account in flux is identified, users are automatically alerted so they can research and determine the source of the fluctuation.

Intercompany Hub

Intercompany transactions occur when entities within a corporate parent organization transact with each other. These transactions are some of the most complex and frequent sources of uncertainty for the accounting function. Our Intercompany Hub solution manages the entire intercompany transaction lifecycle within our platform and we believe it is the only widely available end-to-end intercompany solution. This solution includes the following features:

- **Intercompany Workflow** replaces informal, ad-hoc intercompany requests and approvals with a simple, structured workflow approval process. The application stores permissions by entity and transaction type, ensuring that both the initiator and the approver of the intercompany transaction are authorized to conduct business.
- **Intercompany Processing** records an organization’s intercompany transactions once they reach an appropriate completion level and posts them to the appropriate systems from a single source. The product automatically incorporates local taxes, exchange rates, invoicing requirements, and customer-specific transfer pricing so that the resulting journal entries will net, which reduces the possibility of intercompany differences and eliminates the need to perform a manual reconciliation.
- **Netting and Settlement** automatically generate a real-time, aggregated settlement matrix, which shows the balance of transactions across an entire organization. Users can filter the information by transaction type, currency or business relationship, easing the process of netting transactions and helping them make informed, strategic decisions.

Compliance

- **Compliance** is an integrated solution that facilitates compliance-related initiatives, consolidates project management, and provides visibility over control self-assessments and testing.

Services

Customer service is essential to our success. We offer the following services for our customers:

- **Implementation.** With a focus on configuration over customization, our implementation approach favors rapid and efficient deployments led by accounting experts, rather than technical resources. A typical project will focus on mapping our application to a customer’s current or ideal process, coaching them on best practices, and helping organizations become self-sufficient, instead of dependent on additional professional services. For clients that elect to work with a business process outsourcer or other company for implementation services, our implementation team provides ongoing support in order to ensure that the implementation or finance transformation projects are completed successfully. We generally provide this service for a fixed fee.
- **Support.** We provide live customer support 24/7/365 from our offices in Woodland Hills, Sydney and London. All customers have access to support resources by phone, email or through our portal, free of charge.
- **Customer Success.** Our customer success managers, many of whom are former users, provide customers with best practices and help create a roadmap for expanded usage of our platform. We believe that this service, which is made available to all customers, is central to our retention and upsell efforts.

- **Training.** We offer a variety of live and web-based training options, but most customers elect to consume their training through our e-learning environment, BlackLine U. Courses cover platform functionality, as well as the underlying concepts that make reconciliation, the financial close and other accounting and finance activities necessary.

Sales and Marketing

We sell our solutions through our direct sales force. Our direct sales force leverages our relationships with technology vendors such as SAP and NetSuite, professional services firms such as Deloitte, Ernst & Young, and KPMG and business process outsourcers such as Cognizant, Genpact and IBM, to influence and drive customer growth. In particular, we offer our customers an integrated SAP-endorsed business solution in connection with our relationship with SAP. We also utilize a reseller channel that includes software vendors throughout the world and offer training in our solutions so that our reach is further extended.

Our marketing efforts are focused on creating sales leads, establishing and extending our brand proposition, generating product awareness, and cultivating our community of users. We generate sales leads primarily through word-of-mouth, search engine marketing, outbound lead generation, and our network of business process outsourcers, business services organizations and resellers. We leverage online and offline marketing channels on a global basis and organize customer roundtables and user conferences and release white papers, case studies, blogs, and digital programs and seminars. We have further extended our brand awareness through sponsorships with leading industry organizations such as the American Institute of Certified Public Accountants, or AICPA, the Institute of Management Accountants, or IMA, the Financial Executives International, or FEI, the Institute of Chartered Accountants in England and Wales, or ICAEW, and the Association of Chartered Certified Accountants, or ACCA.

Competition

The market for accounting and financial software and services is competitive, rapidly evolving and requires deep understanding of the industry standards, accounting rules and global financial regulations.

We compete with vendors of financial automation software such as Trintech, and we also compete with components of Oracle's Hyperion software. Further, other established software vendors not currently focused on accounting and finance software and services, including some of our partners, resellers, and other parties with which we have relationships, may expand their services to compete with us.

We believe the principal competitive factors in our market include the following:

- level of customer satisfaction;
- ease of deployment and use of applications;
- ability to integrate with multiple legacy enterprise infrastructures and third-party applications;
- domain expertise on accounting best practices;
- ability to innovate and respond to customer needs rapidly;
- capability for configurability, integration and scalability of applications;
- cloud-based delivery model;
- advanced security and reliability features;
- brand recognition and historical operating performance; and
- price and total cost of ownership.

We believe we are positioned favorably against our competitors based on these factors. However, certain of our competitors may have greater name recognition, longer operating histories, more established customer and marketing relationships, larger marketing budgets, and significantly greater resources.

Intellectual Property and Proprietary Rights

Our intellectual property and proprietary rights are important to our business. We currently have one patent, which was issued on October 1, 2019. We primarily rely on copyright, trade secret and trademark laws, trade secret protection, and confidentiality or license agreements with our employees, customers, partners, and others to protect our intellectual property rights. Though we rely in part upon these legal and contractual protections, we believe that factors such as the skills and ingenuity of our employees and the functionality and frequent enhancements to our solutions are larger contributors to our success in the marketplace.

Despite our efforts to preserve and protect our intellectual property and proprietary rights, unauthorized third parties may attempt to copy, reverse engineer or otherwise obtain portions of our software. Competitors may attempt to develop similar products that could compete in the same market as our products. Unauthorized disclosure of our confidential information by our employees or third parties could occur. Laws of other jurisdictions may not protect our intellectual property and proprietary rights from unauthorized use or disclosure in the same manner as the United States. The risk of unauthorized use of our proprietary and intellectual property rights may increase as our company continues to expand outside of the United States.

Third-party infringement claims are also possible in our industry, especially as software functionality and features expand, evolve and overlap with other industry segments.

Employees and Culture

We believe our employees and culture are fundamental to our success. Therese Tucker, our founder and Chief Executive Officer, has led our company since its inception in 2001 and has built and maintained a culture committed to empowering our employees and communities around us. Our motto “Think. Create. Serve.” expresses our core values as a company dedicated to innovation and creativity, collaboration and action, and service to each other and our customers.

At December 31, 2019, we employed 1,055 people globally. None of our employees are represented by a labor union or covered by a collective bargaining agreement. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Corporate Information

We were incorporated in May 2001. Our principal executive offices are located at 21300 Victory Blvd., 12th Floor, Woodland Hills, California 91367, and our telephone number is (818) 223-9008. On September 3, 2013, BlackLine, Inc., a newly-formed Delaware C-Corporation, acquired BlackLine Systems, Inc., a California S-Corporation, and Silver Lake Sumeru and Iconiq acquired a controlling interest in us, which we refer to as the “2013 Acquisition”. We completed our initial public offering in November 2016, and our common stock is listed on the NASDAQ Global Select Market under the symbol “BL.”

The names “BlackLine,” “BlackLine Systems,” “Intercompany Hub,” and our logo are our trademarks. This Annual Report on Form 10-K also contains trademarks and trade names of other businesses that are the property of their respective holders. We have omitted the ® and ™ designations, as applicable, for the trademarks we name in this Annual Report on Form 10-K.

Available Information

Our website is located at www.blackline.com, and our investor relations website is located at <http://investors.blackline.com>. We have used, and intend to continue to use, our Investor Relations website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available, free of charge, on our investor relations website as soon as reasonably practicable after we file such material electronically with or furnish it to the Securities and Exchange Commission, or the SEC. The SEC also maintains a website that contains our SEC filings. The address of the site is www.sec.gov.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes, before making a decision to invest in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risk and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the events or circumstances described in the following risk factors actually occurs, our business, operating results, financial condition, cash flows, and prospects could be materially and adversely affected. In that event, the market price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Industry

If we are unable to attract new customers and expand sales to existing customers, our business growth could be slower than we expect and our business may be harmed.

Our future growth depends in part upon increasing our customer base. Our ability to achieve significant growth in revenues in the future will depend, in large part, upon the effectiveness of our sales and marketing efforts, both domestically and internationally. We may have difficulty attracting a potential client that has already invested substantial personnel and financial resources to integrate on-premise software into its business, as such organizations may be reluctant or unwilling to invest in a new product. If we fail to attract new customers or maintain and expand those customer relationships, our revenues will grow more slowly than expected and our business will be harmed.

Our future growth also depends upon our ability to add users and sell additional products to our existing customers. It is important for the future growth of our business that our existing customers make additional significant purchases of our products and add additional users to our platform. Although our customers, users, and revenue have grown rapidly in the past, in recent periods our slower growth rates have reflected the size and scale of our business, as well as our focus on our strategic products. We cannot be assured that we will achieve similar growth rates in future periods as our customers, users, and revenue could decline or grow more slowly than we expect. Our business also depends on retaining existing customers. If we do not retain customers, including due to the acquisition of our customers by other companies, our customers do not purchase additional products or we do not add additional users to our platform, our revenues may grow more slowly than expected, may not grow at all or may decline. Additionally, increasing incremental sales to our current customer base may require additional sales efforts that are targeted at senior management. There can be no assurance that our efforts will result in increased sales to existing customers or additional revenues.

Our business and growth depend substantially on customers renewing their subscription agreements with us and any decline in our customer renewals could adversely affect our future operating results.

Our initial subscription period for the majority of our customers is one to three years. In order for us to continue to increase our revenue, it is important that our existing customers renew their subscription agreements when the initial contract term expires. Although our agreements typically include automatic renewal language, our customers may cancel their agreements at the expiration of the initial term. In addition, our customers may renew for fewer users, renew for shorter contract lengths or renew for fewer products or solutions. Renewal rates may decline or fluctuate as a result of a variety of factors, including satisfaction or dissatisfaction with our software or professional services, our pricing or pricing structure, the pricing or capabilities of products or services offered by our competitors, the effects of economic conditions, or reductions in our customers’ spending levels. As the markets for our existing solutions mature, or as current and future competitors introduce new products or services that compete with ours, we may experience pricing pressure and be unable to renew our agreements with existing customers or attract new customers at prices that are profitable to us. If this were to occur, it is possible that we would have to change our pricing model, offer price incentives or reduce our prices. If our customers do not renew their agreements with us or renew on terms less favorable to us, our revenues may decline.

We have a history of losses and we may not be able to generate sufficient revenue to achieve or sustain profitability.

We have incurred net losses attributable to BlackLine, Inc. in recent periods, including \$32.5 million, \$28.7 million, and \$33.4 million for the years ended December 31, 2019, 2018, and 2017 respectively. We had an accumulated deficit of \$163.6 million at December 31, 2019. We may not be able to generate sufficient revenue to achieve and sustain profitability. We also expect our costs to increase in future periods as we continue to expend substantial financial and other resources on:

- development of our cloud-based platform, including investments in research and development, product innovation to expand the features and functionality of our software solutions and improvements to the scalability and security of our platform;
- sales and marketing, including expansion of our direct sales force and our relationships with technology vendors, professional services firms, business process outsourcers and resellers;
- additional international expansion in an effort to increase our customer base and sales; and
- general administration, including legal, accounting and other expenses related to being a public company.

These investments may not result in increased revenue or growth of our business or any growth in revenue and may not be sufficient to offset the expense and may harm our profitability. If we fail to continue to grow our revenue, we may not achieve or sustain profitability.

We continue to experience rapid growth and organizational change and if we fail to manage our growth effectively, we may be unable to execute our business plan.

We increased our number of full-time employees from 183 at December 31, 2013 to 1,055 at December 31, 2019 as we have experienced growth in number of customers and expanded our operations. Our growth has placed, and may continue to place, a significant strain on our managerial, administrative, operational, financial and other resources. We intend to further expand our headcount and operations both domestically and internationally, with no assurance that our business or revenue will continue to grow. Continuing to create a global organization and managing a geographically dispersed workforce will require substantial management effort, the allocation of valuable management resources and significant additional investment in our infrastructure. We will be required to continually improve our operational, financial and management controls and our reporting procedures and we may not be able to do so effectively, which could negatively affect our results of operations and overall business. In addition, we may be unable to manage our expenses effectively in the future, which may negatively impact our gross margins or operating expenses in any particular quarter. Moreover, if we fail to manage our anticipated growth and change in a manner that preserves the key aspects of our corporate culture, the quality of our software solutions may suffer, which could negatively affect our brand and reputation and harm our ability to retain and attract customers.

Our quarterly results may fluctuate, and if we fail to meet the expectations of analysts or investors, our stock price and the value of your investment could decline substantially.

Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly financial results fall below the expectations of investors or any securities analysts who may follow our stock, the price of our common stock could decline substantially. Some of the important factors that may cause our revenue, operating results and cash flows to fluctuate from quarter to quarter include:

- our ability to attract new customers and retain and increase sales to existing customers;
- the number of new employees added;
- the rate of expansion and productivity of our sales force;
- long sales cycles and the timing of large contracts;
- changes in our or our competitors' pricing policies;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- new products, features or functionalities introduced by us and our competitors;

- significant security breaches, technical difficulties or interruptions to our platform;
- the timing of customer payments and payment defaults by customers;
- general economic conditions that may adversely affect either our customers' ability or willingness to purchase additional products or services, delay a prospective customer's purchasing decision or affect customer retention;
- changes in foreign currency exchange rates;
- the impact of new accounting pronouncements;
- the impact and timing of taxes or changes in tax law;
- the timing and the amount of grants or vesting of equity awards to employees;
- seasonality of our business; and
- changes in customer buying patterns.

Many of these factors are outside of our control, and the occurrence of one or more of them might cause our revenue, operating results, and cash flows to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenue, operating results and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

We typically add fewer customers in the first quarter of the year than other quarters. We also experience a higher volume of sales at the end of each quarter and year, which is often the result of buying decisions by our customers. Seasonality may be reflected to a much lesser extent, and sometimes may not be immediately apparent, in our revenue, due to the fact that we recognize subscription revenue over the term of our agreements. We may also increase expenses in a period in anticipation of future revenues. Changes in the number of customers and users in different periods will cause fluctuations in our financial metrics and, to a lesser extent, revenues. Those changes and fluctuations in our expenses will affect our results on a quarterly basis, and will make forecasting our future operating results and financial metrics difficult.

If we are not able to provide successful enhancements, new features or modifications to our software solutions, our business could be adversely affected.

If we are unable to provide enhancements and new features for our existing solutions or new solutions that achieve market acceptance or that keep pace with rapid technological developments, our business could be adversely affected. The success of enhancements, new products and solutions depends on several factors, including timely completion, introduction and market acceptance. We must continue to meet changing expectations and requirements of our customers and, because our platform is designed to operate on a variety of systems, we will need to continuously modify and enhance our solutions to keep pace with changes in internet-related hardware and other software, communication, browser and database technologies. Our platform is also designed to integrate with existing enterprise resource planning ("ERP") systems such as NetSuite, Oracle, SAP and Workday, and will require modifications and enhancements as these systems change over time. Any failure of our solutions to operate effectively with future platforms and technologies could reduce the demand for our solutions or result in customer dissatisfaction. Furthermore, uncertainties about the timing and nature of new solutions or technologies, or modifications to existing solutions or technologies, could increase our research and development expenses. If we are not successful in developing modifications and enhancements to our solutions or if we fail to bring them to market in a timely fashion, our solutions may become less marketable, less competitive or obsolete, our revenue growth may be significantly impaired and our business could be adversely affected.

We derive substantially all of our revenues from a limited number of software solutions, and our future growth is dependent on their success.

We currently derive and expect to continue to derive substantially all of our revenues from our Close Process Management solution. As such, the continued growth in market demand for this solution is critical to our continued success. In 2016, we introduced two software solutions, Intercompany Hub and Smart Close, and one software product, Insights, but cannot be certain that they will generate significant revenues. Accordingly, our business and financial results have been and will be substantially dependent on a limited number of solutions.

If our relationships with technology vendors and business process outsourcers are not successful, our business and growth will be harmed.

We depend on, and anticipate that we will continue to depend on, various strategic relationships in order to sustain and grow our business. We have established strong relationships with technology vendors such as SAP and NetSuite to market our solutions to users of their ERP solutions, and professional services firms such as Deloitte, Ernst & Young, and KPMG, and business process outsourcers such as Cognizant, Genpact and IBM to supplement delivery and implementation of our applications. We believe these relationships enable us to effectively market our solutions by offering a complementary suite of services. In particular, our solution is an SAP-endorsed business solution that integrates with SAP's ERP solutions. In the fourth quarter of 2018, SAP became part of the reseller channel that we use in the ordinary course of business. SAP has the ability to resell our accounting solutions, for which we receive a percentage of the revenues. Since October 1, 2018, we are no longer obligated to pay SAP a fee based on a percentage of revenues from our customers that use an SAP ERP solution. If we are unsuccessful in maintaining our relationship with SAP, if our reseller arrangement with SAP is less successful than we anticipate, if our customers that use an SAP ERP solution do not renew their subscriptions directly with us and instead purchase our solution through the SAP reseller channel or if we are unsuccessful in supporting or expanding our relationships with other companies, our business would be adversely affected.

Identifying, negotiating and documenting relationships with other companies require significant time and resources. Our agreements with technology vendors are typically limited in duration, non-exclusive, cancellable upon notice and do not prohibit the counterparties from working with our competitors or from offering competing services. For example, our agreement with SAP can be terminated by either party upon six months' notice and there is no assurance that our relationship with SAP will continue. If our solution is no longer an SAP-endorsed business solution, our business could be adversely affected. Our competitors may be effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our platform. If we are unsuccessful in establishing or maintaining our relationships, or if the counterparties to our relationships offer competing solutions, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results could suffer. Even if we are successful, we cannot assure you that these relationships will result in improved operating results.

If our security controls are breached or unauthorized, or inadvertent access to customer, employee or other confidential data is otherwise obtained, our software solutions may be perceived as insecure, we may lose existing customers or fail to attract new customers, our business may be harmed and we may incur significant liabilities.

Use of our platform involves the storage, transmission and processing of our customers' proprietary data, including highly confidential financial information regarding their business and personal or identifying information regarding their customers or employees. Our platform is at risk for breaches as a result of third-party action, employee, vendor or contractor error, malfeasance or other factors. If any unauthorized or inadvertent access to or a security breach of our platform occurs, or is believed to occur, such an event could result in the loss of data, loss of business, severe reputational damage adversely affecting customer or investor confidence, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach or penalties for violation of applicable laws or regulations. As we rely more on third-party and public-cloud infrastructure, such as Google Cloud Platform, and other third-party service providers, we will become more dependent on third-party security measures to protect against unauthorized access, cyberattacks and the mishandling of customer, employee and other confidential data and we may be required to expend significant time and resources to address any incidents related to the failure of those third-party security measures. We may also suffer breaches of our internal systems. Security breaches of our platform or our internal systems could also result in significant costs for remediation that may include liability for stolen assets or information and repair of system damage that may have been caused, incentives offered to customers or other business partners in an effort to maintain business relationships after a breach, and other liabilities.

Additionally, many jurisdictions have enacted or may enact laws and regulations requiring companies to notify individuals of data security breaches involving certain types of personal data. These mandatory disclosures regarding a security breach could result in negative publicity to us, which may cause our customers to lose confidence in the effectiveness of our data security measures which could impact our operating results.

We incur significant expenses to prevent security breaches, including deploying additional personnel and protection technologies, training employees, and engaging third-party experts and contractors. If a high profile security breach occurs with respect to another Software as a Service ("SaaS") provider or other technology companies, our clients and potential clients may lose trust in the security of our platform or in the SaaS business model generally, which could

adversely impact our ability to retain existing clients or attract new ones. Even in the absence of any security breach, customer concerns about, privacy, security, or data protection may deter them from using our platform for activities that involve personal or other sensitive information. Our errors and omissions insurance policies covering certain security and privacy damages and claim expenses may not be sufficient to compensate for all potential liability. Although we maintain cyber liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

Because the techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. We may also experience security breaches that may remain undetected for an extended period. From time to time, we experience cyber security events including directed “phishing” attacks against our employees, web attacks and other information technology incidents that are typical for a SaaS company of our size. These threats continue to evolve in sophistication and volume and are difficult to detect and predict due to advances in computer capabilities, new discoveries in the field of cryptography and new and sophisticated methods used by criminals including phishing, social engineering or other illicit acts. There can be no assurances that our defensive measures will prevent cyber-attacks and any incidents could damage our brand and reputation and negatively impact our business.

Because data security is a critical competitive factor in our industry, we make numerous statements in our privacy policy and customer agreements, through our certifications to privacy standards and in our marketing materials, providing assurances about the security of our platform including detailed descriptions of security measures we employ. Should any of these statements be untrue or become untrue, even through circumstances beyond our reasonable control, we may face claims of misrepresentation or deceptiveness by the U.S. Federal Trade Commission, state and foreign regulators and private litigants. Our errors and omissions insurance coverage covering privacy, security, and data protection damages and claim expenses may not be sufficient to compensate for all liabilities.

Interruptions or performance problems associated with our software solutions, platform and technology may adversely affect our business and operating results.

Our continued growth depends in part on the ability of our existing and potential customers to access our platform at any time. Our platform is proprietary, and we rely on the expertise of members of our engineering, operations and software development teams for its continued performance. We have experienced, and may in the future experience, disruptions, outages and other performance problems due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints due to an overwhelming number of users accessing our platform simultaneously, denial of service attacks or other security related incidents. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. Because of the seasonal nature of financial close activities, increasing complexity of our platform and expanding user population, it may become difficult to accurately predict and timely address performance and capacity needs during peak load times. If our platform is unavailable or if our users are unable to access it within a reasonable amount of time or at all, our business would be harmed. In addition, our infrastructure does not currently include the real-time mirroring of data. Therefore, in the event of any of the factors described above, or other failures of our infrastructure, customer data may be permanently lost. Our customer agreements typically include performance guarantees and service level standards that obligate us to provide credits in the event of a significant disruption in our platform. To the extent that we do not effectively address capacity constraints, upgrade our systems and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be adversely affected.

If our software contains serious errors or defects, we may lose revenue and market acceptance and may incur costs to defend or settle product liability claims.

Complex software such as ours often contains errors or defects, particularly when first introduced or when new versions or enhancements are released. Despite internal and third-party testing and testing by our customers, our current and future software may contain serious defects, which could result in lost revenue or a delay in market acceptance.

Since our customers use our platform for critical business functions such as assisting in the financial close or account reconciliation process, errors, defects or other performance problems could result in damage to our customers. They could seek significant compensation from us for the losses they suffer. Although our customer agreements typically contain provisions designed to limit our exposure to product liability claims, existing or future laws or unfavorable judicial decisions could negate these limitations. Even if not successful, a product liability claim brought against us would likely be time-consuming and costly and could seriously damage our reputation in the marketplace, making it harder for us to sell our products.

We depend on our executive officers and other key employees and the loss of one or more of these employees or an inability to attract and retain highly-skilled employees could adversely affect our business.

Our success depends largely upon the continued services of our executive officers and other key employees. We rely on our leadership team in the areas of research and development, operations, security, marketing, sales and general and administrative functions, many of whom are new. In particular, our founder and Chief Executive Officer provides our strategic direction and has built and maintained what we believe is an attractive workplace culture. Any failure to preserve our culture could negatively affect our ability to recruit and retain personnel. There recently have been, and from time to time in the future, there may be, changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. Key members of our current management and finance teams have only been working together for a relatively short period of time. If we are not successful in integrating these key employees into our organization, such failure could disrupt our business operations. We do not have employment agreements with our executive officers or other key personnel that require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers or key employees, especially our founder and Chief Executive Officer, could have an adverse effect on our business.

In addition, to execute our growth plan, we must attract and retain highly-qualified personnel. Competition for personnel is intense, especially for engineers experienced in designing and developing software applications, and experienced sales professionals. We have, from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached their legal obligations, resulting in a diversion of our time and resources. Likewise, if competitors hire our employees, we may divert time and resources to deterring any breach by our former employees or their new employers of their legal obligations. Given the competitive nature of our industry, we have both received and asserted such claims in the past. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, it may adversely affect our ability to recruit and retain highly-skilled employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be adversely affected.

If our industry does not continue to develop as we anticipate or if potential customers do not continue to adopt our platform, our sales would not grow as quickly as expected, or at all, and our business and operating results and financial condition would be adversely affected.

We operate in a rapidly evolving industry focused on modernizing financial and accounting operations. Our solutions are relatively new and have been developed to respond to an increasingly global and complex business environment with more rigorous regulatory standards. If organizations do not increasingly allocate their budgets to financial automation software as we expect or if we do not succeed in convincing potential customers that our platform should be an integral part of their overall approach to their accounting processes, our sales may not grow as quickly as anticipated, or at all. Our business is substantially dependent on enterprises recognizing that accounting errors and inefficiencies are pervasive and are not effectively addressed by legacy solutions. Future deterioration in general economic conditions may also cause our customers to cut their overall information technology spending, and such cuts may disproportionately affect software solutions like ours to the extent customers view our solutions as discretionary. If our revenue does not increase for any of these reasons, or any other reason, our business, financial condition and operating results may be materially adversely affected.

The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The market for accounting and financial software and services is highly competitive and rapidly evolving. Our competitors vary in size and in the breadth and scope of the products and services they offer. We often compete with other vendors of financial automation software such as Trintech. We also compete with large, well-established, enterprise application software vendors, such as Oracle, whose Hyperion software contains components that compete with our platform. In the future, a competitor offering ERP software could include a free service similar to ours as part of its standard offerings or may offer a free standalone version of a service similar to ours. Further, other established software vendors not currently focused on accounting and finance software and services, including some of our partners, resellers, and other parties with which we have relationships, may expand their services to compete with us.

Our competitors may have greater name recognition, longer operating histories, more established customer and marketing relationships, larger marketing budgets and significantly greater resources than we do. They may be able to

respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. In addition, some of our competitors have partnered with, or have acquired, and may in the future partner with or acquire, other competitors to offer services, leveraging their collective competitive positions, which makes, or would make, it more difficult to compete with them.

With the introduction of new technologies, the evolution of our platform and new market entrants, we expect competition to intensify in the future. Increased competition generally could result in reduced sales, reduced margins, losses or the failure of our platform to achieve or maintain more widespread market acceptance, any of which could harm our business.

Our financial results may fluctuate due to our long and increasingly variable sales cycle.

Our sales cycle generally varies in duration between four to nine months and, in some cases, even longer depending on the size of the potential customer, the size of the potential contract and the type of solution or product being purchased. The sales cycle for our global enterprise customers is generally longer than that of our mid-market customers. In addition, the length of the sales cycle tends to increase for larger contracts and for more complex, strategic products like Intercompany Hub. As we continue to focus on increasing our average contract size and selling more strategic products, we expect our sales cycle to lengthen and become less predictable. This could cause variability in our operating results for any particular period.

A number of other factors that may influence the length and variability of our sales cycle include:

- the need to educate potential customers about the uses and benefits of our software solutions;
- the need to educate potential customers on the differences between traditional, on-premise software and SaaS solutions;
- the relatively long duration of the commitment customers make in their agreements with us;
- the discretionary nature and timing of potential customers' purchasing and budget cycles and decisions;
- the competitive nature of potential customers' evaluation and purchasing processes;
- announcements or planned introductions of new products by us or our competitors; and
- lengthy purchasing approval processes of potential customers.

We may incur higher costs and longer sales cycles as a result of large enterprises representing an increased portion of our revenue. In this market, the decision to subscribe to our solutions may require the approval of more technical and information security personnel and management levels within a potential customer's organization, and if so, these types of sales require us to invest more time educating these potential customers. In addition, larger organizations may demand more features and integration services and have increased purchasing power and leverage in negotiating contractual arrangements with us, which may contain restrictive terms favorable to the larger organization. As a result of these factors, these sales opportunities may require us to devote greater research and development, sales, product support and professional services resources to individual customers, resulting in increased costs and reduced profitability, and would likely lengthen our typical sales cycle, which could strain our resources.

In addition, more sales are closed in the last month of a quarter than other times. If we are unable to close sufficient transactions in a particular period, or if a significant amount of transactions are delayed until a subsequent period, our operating results for that period, and for any future periods in which revenue from such transaction would otherwise have been recognized, may be adversely affected.

Failure to effectively organize or expand our sales capabilities could harm our ability to increase our customer base.

Increasing our customer base and sales will depend, to a significant extent, on our ability to effectively organize and expand our sales and marketing operations and activities. At December 31, 2019, our sales and marketing teams included 517 employees. As we've grown and scaled our operations, we have aligned our sales team to help streamline the customer experience. We rely on our direct sales force, which includes an account management team, to obtain new customers and to maximize the lifetime value of our customer relationships through retention and upsell efforts. Our success will depend, in part, on our ability to support new and existing customer growth and maintain customer

satisfaction. If we cannot provide the tools and training to our teams to efficiently do their jobs and satisfy customer demands, we may not be able to achieve anticipated revenue growth as quickly as expected.

In addition, we plan to continue to expand our direct sales force both domestically and internationally. We believe that there is significant competition for experienced sales professionals with the sales skills and technical knowledge that we require. Our ability to achieve significant revenue growth in the future will depend, in part, on our success in recruiting, training, and retaining a sufficient number of experienced sales professionals. New hires require significant training and time before they achieve full productivity, particularly in new sales segments and territories. Our recent hires and planned hires may not become as productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do business. Our business will be harmed if our sales expansion efforts do not generate a significant increase in revenue.

We recognize subscription revenue over the term of our customer contracts and, consequently, downturns or upturns in new sales may not be immediately reflected in our operating results and may be difficult to discern.

We recognize subscription revenue from our platform ratably over the terms of our customers' agreements, most of which have one-year terms but an increasing number of which have up to three-year terms. As a result, most of the revenue we report in each quarter is derived from the recognition of deferred revenue relating to subscriptions entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any single quarter may have a small impact on our revenue results for that quarter. However, such a decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our platform, and potential changes in our pricing policies or rate of expansion or retention, may not be fully reflected in our results of operations until future periods. We may also be unable to reduce our cost structure in line with a significant deterioration in sales. In addition, a significant majority of our costs are expensed as incurred, while revenue is recognized over the life of the agreement with our customer. As a result, increased growth in the number of our customers could continue to result in our recognition of more costs than revenue in the earlier periods of the terms of our agreements. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

We may identify material weaknesses in the future or otherwise fail to maintain an effective system of internal control over financial reporting in the future and may not be able to accurately or timely report our financial condition or results of operations, which may adversely affect investor confidence in us and the price of our common stock.

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), requires that we evaluate and determine the effectiveness of our internal control over financial reporting and provide a management report on internal control over financial reporting.

The process of designing and implementing internal control over financial reporting required to comply with Section 404 of the Sarbanes-Oxley Act has been and will continue to be time consuming, costly and complicated. If, during the evaluation and testing process, we identify one or more material weaknesses in our internal control over financial reporting, our management will be unable to assert that our internal control over financial reporting is effective. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may conclude that there are material weaknesses with respect to our internal controls or the level at which our internal controls are documented, designed, implemented, or reviewed. If we are unable to assert that our internal control over financial reporting is effective, or when required in the future, if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports, the market price of our common stock could be adversely affected, and we could become subject to stockholder lawsuits, litigation or investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources, and cause investor perceptions to be adversely affected and potentially resulting in restatement of our financial statements for prior periods and a decline in the market price of our stock.

We rely on Google Cloud Platform (GCP) and third-party data centers (collectively, “hosting providers”) to deliver our cloud-based software solutions, and any disruption of our use of hosting providers could negatively impact our operations and harm our business.

We manage our software solutions and serve most of our customers using a cloud-based infrastructure that has historically been operated in a limited number of third-party data center facilities in North America and Europe. We are developing plans to migrate some of our third-party data centers to GCP, increasing our reliance on this cloud provider. As we implement the transition to GCP, there could be occasional planned or unplanned downtime for our cloud-based software solutions and potential service delays, all of which will impact our customers’ ability to use our solutions. We may also need to divert resources away from other important business operations, which could harm our business and growth. Additionally, if the costs to migrate to GCP are greater than we expect or take significantly more time than we anticipate, our business could be harmed.

We do not control the operation of our hosting providers. Any changes in third-party service levels or any disruptions or delays from errors, defects, hacking incidents, security breaches, computer viruses, DDoS attacks, bad acts or performance problems could harm our reputation, damage our customers’ businesses, and adversely affect our business and operating results. Our hosting providers are also vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. We may have limited remedies against third-party providers in the event of any service disruptions. If our third-party hosting providers are compromised or unavailable or our customers are unable to access our solutions for any reason, our business and operations would be materially and adversely affected.

Our customers have experienced minor disruptions and outages in accessing our solutions in the past, and may in the future experience disruptions, outages, and other performance problems. Although we expend considerable effort to ensure that our platform performance is capable of handling existing and increased traffic levels, the ability of our cloud-based solutions to effectively manage any increased capacity requirements depends on our hosting providers. Our hosting providers may not be able to meet such performance requirements, especially to cover peak levels or spikes in traffic, and as a result, our customers may experience delays in accessing our solutions or encounter slower performance in our solutions, which could significantly harm the operations of these facilities. Interruptions in our services might reduce our revenue, cause us to issue credits to customers, subject us to potential liability, and cause customers to terminate their subscriptions or harm our renewal rates.

If we do not accurately predict our infrastructure capacity requirements, our customers could experience service shortfalls. The provisioning of additional cloud hosting capacity requires lead time. As we continue to restructure our data management plans, and increase our cloud hosting capacity, we have and expect to in the future move or transfer our data and our customers’ data. Despite precautions taken during such processes and procedures, any unsuccessful data transfers may impair the delivery of our service, and we may experience costs or downtime in connection with the transfer of data to other facilities which may lead to, among other things, customer dissatisfaction and non-renewals. GCP has no obligation to renew their agreements with us on commercially reasonable terms, or at all. If GCP increases pricing terms, terminates or seeks to terminate our contractual relationship, establishes more favorable relationships with our competitors, or changes or interprets its terms of service or policies in a manner that is unfavorable with respect to us, we may be required to transfer to another cloud provider. If we are required to transfer to another cloud provider, we would incur significant costs and experience possible service interruption in connection with doing so.

If we are unable to develop and maintain successful relationships with resellers, our business, operating results and financial condition could be adversely affected.

We believe that continued growth in our business is dependent upon identifying, developing, and maintaining strategic relationships with companies that resell our solutions. We plan to expand our growing network of resellers and to add new resellers, in particular to help grow our mid-market business globally. Our agreements with our existing resellers are non-exclusive, meaning resellers may offer customers the products of several different companies, including products that compete with ours. They may also cease marketing our solutions with limited or no notice and with little or no penalty. We expect that any additional resellers we identify and develop will be similarly non-exclusive and not bound by any requirement to continue to market our solutions. If we fail to identify additional resellers in a timely and cost-effective manner, or at all, or are unable to assist our current and future resellers in independently selling our solutions, our business, results of operations, and financial condition could be adversely affected. If resellers do not effectively market and sell our solutions, or fail to meet the needs of our customers, our reputation and ability to grow our business may also be adversely affected.

If we are not able to maintain and enhance our brand, our business, operating results and financial condition may be adversely affected.

We believe that maintaining and enhancing our reputation for accounting and finance software is critical to our relationships with our existing customers and to our ability to attract new customers. The successful promotion of our brand attributes will depend on a number of factors, including our marketing efforts, our ability to continue to develop high-quality software, and our ability to successfully differentiate our platform from competitive products and services. Our brand promotion activities may not ultimately be successful or yield increased revenue. In addition, independent industry analysts provide reviews of our platform, as well as products and services offered by our competitors, and perception of our platform in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive as compared to those of our competitors' products and services, our brand may be adversely affected.

The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive, as we expand into new markets and as more sales are generated. To the extent that these activities yield increased revenue, this revenue may not offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, we may have reduced pricing power relative to competitors, and we could lose customers or fail to attract potential customers, all of which would adversely affect our business, results of operations and financial condition.

Our long-term success depends, in part, on our ability to expand the sales of our solutions to customers located outside of the United States, and thus our business is susceptible to risks associated with international sales and operations.

We currently maintain offices and/or have sales personnel in Australia, Canada, France, Germany, Hong Kong, Ireland, Netherlands, Poland, Romania, Singapore, and the United Kingdom, and we intend to build out our international operations. As part of our ongoing international expansion strategy, in August 2016, we acquired Runbook, a Netherlands-based provider of financial close automation software solutions to SAP customers. Additionally, in September 2018, we entered into an agreement with Japanese Cloud Computing and M30 LLC to engage in a joint venture that is focused on the sale of our products in Japan (the "Japanese Joint Venture"). We derived approximately 23%, 21%, and 19% of our revenues from sales outside the United States in the years ended December 31, 2019, 2018, and 2017 respectively. Any international expansion efforts that we may undertake, including our Runbook Acquisition and our Japanese Joint Venture, may not be successful. In addition, conducting international operations in new markets subjects us to new risks that we have not generally faced in the United States. These risks include:

- localization of our solutions, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- lack of familiarity and burdens of complying with foreign laws, legal standards, regulatory requirements, tariffs and other barriers;
- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;
- differing technology standards;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations and differing employer/employee relationships;
- fluctuations in exchange rates that may increase the volatility of our foreign-based revenue;
- potentially adverse tax consequences, including the complexities of foreign value-added tax (or other tax) systems and restrictions on the repatriation of earnings;
- uncertain political and economic climates, including the significant volatility in the global financial markets;
- the impact of natural disasters and public health epidemics, such as the coronavirus, on employees, customers, partners, third-party contractors, travel and the global economy; and
- reduced or varied protection for intellectual property rights in some countries.

These factors may cause our international costs of doing business to exceed our comparable domestic costs. Operating in international markets also requires significant management attention and financial resources. Any negative impact from our international business efforts could negatively impact our business, results of operations and financial condition as a whole.

We may be unable to integrate acquired businesses and technologies successfully, or achieve the expected benefits of these transactions and other strategic transactions.

We regularly evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, products, and other assets. For example, in 2016, we completed the Runbook Acquisition and in 2018, we entered into our Japanese Joint Venture. We also may enter into relationships with other businesses to expand our products and services, which could involve preferred or exclusive licenses, additional channels of distributions or discount pricing.

Any future acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to work for us, their software is not easily adapted to work with our platform, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. In addition, Runbook offers an on-premise solution to its customers. If we are unable to migrate those customers to our cloud solution or if we are unable to integrate Runbook's on-premise software with our platform, our business may be adversely affected. Acquisitions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for development of our existing business. Moreover, the anticipated benefits of any acquisition, investment, or business relationship may not be realized or we may be exposed to unknown risks or liabilities.

Negotiating these transactions can be time-consuming, difficult, and expensive, and our ability to complete these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if announced, may not be completed. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our existing stockholders;
- use cash that we may need in the future to operate our business;
- incur large charges or substantial liabilities;
- incur debt on terms unfavorable to us or that we are unable to repay;
- encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; and
- become subject to adverse tax consequences, substantial depreciation, and amortization, or deferred compensation charges.

We use third-party contractors outside of the United States to supplement our research and development capabilities, which may expose us to risks, including risks inherent in foreign operations.

We use third-party contractors outside of the United States to supplement our research and development capabilities. We currently use third-party contractors located in Romania and China. Managing operations that are remote from our U.S. headquarters is difficult and we may not be able to manage these third-party contractors successfully. If we fail to maintain productive relationships with these contractors generally, we may be required to develop our solutions in a less efficient and cost-effective manner and our product release schedules may be delayed while we hire software developers or find alternative contract development resources. Additionally, while we take precautions to ensure that software components developed by our third-party contractors are reviewed and that our source code is protected, misconduct by our third-party contractors could result in infringement or misappropriation of our intellectual property. Furthermore, any acts of espionage, malware attacks, theft of confidential information or other malicious privacy, security, or data protection incidents attributed to our third-party contractors may compromise our system infrastructure, expose us to litigation and lead to reputational harm that could result in a material adverse effect on our financial condition and operating results.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depend, in part, upon our intellectual property. We currently have one patent, which was issued on October 1, 2019. We primarily rely on copyright, trade secret and trademark laws, trade secret protection, and confidentiality or license agreements with our employees, customers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. In the past, we have utilized demand letters as a means to assert and resolve claims regarding potential misuse of our proprietary or trade secret information. Litigation brought to protect and enforce our intellectual property rights 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 failure to secure, protect and enforce our intellectual property rights could adversely affect our brand and adversely impact our business.

Lawsuits or other claims by third parties for alleged infringement of their proprietary rights could cause us to incur significant expenses or liabilities.

There is considerable patent and other intellectual property development activity in our industry. Our future success depends, in part, on not infringing upon the intellectual property rights of others. From time to time, our competitors or other third parties may claim that our solutions and underlying technology infringe or violate their intellectual property rights, and we may be found to be infringing upon such rights. We may be unaware of the intellectual property rights of others that may cover some or all of our technology. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our solutions or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or other companies in connection with any such litigation and to obtain licenses, modify our solutions, or refund subscription fees, which could further exhaust our resources. In addition, we may incur substantial costs to resolve claims or litigation, whether or not successfully asserted against us, which could include payment of significant settlement, royalty or license fees, modification of our solutions, or refunds to customers of subscription fees. Even if we were to prevail in the event of claims or litigation against us, any claim or litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and other employees from our business operations. Such disputes could also disrupt our solutions, adversely impacting our customer satisfaction and ability to attract customers.

We use open source software in our products, which could subject us to litigation or other actions.

We use open source software in our products and may use more open source software in the future. From time to time, there have been claims challenging the use of open source software against companies that incorporate open source software into their products. As a result, we could be subject to suits by parties claiming misuse of, or a right to compensation for, 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 or require us to devote additional research and development resources to change our products. In addition, if we were to combine our proprietary software products with open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our proprietary software products. If we inappropriately use open source software, we may be required to re-engineer our products, discontinue the sale of our products or take other remedial actions.

Privacy and data security concerns, and data collection and transfer restrictions and related domestic or foreign regulations may limit the use and adoption of our solutions and adversely affect our business.

Privacy, security, and data protection are significant issues in the United States, Europe and many other jurisdictions where we offer our platform. The regulatory framework governing the collection, processing, storage and use of business information, particularly information that affects financial statements, and personal data, is rapidly evolving and any failure or perceived failure to comply with applicable privacy, security, or data protection laws or regulations may adversely affect our business.

The U.S. federal and various state and foreign governments have adopted or proposed requirements regarding the collection, distribution, use, security and storage of personally identifiable information and other data relating to individuals, and federal and state consumer protection laws are being applied to enforce regulations related to the online collection, use and dissemination of data. Some of these requirements include obligations on companies to notify individuals of security breaches involving particular personal information, which could result from breaches experienced

by us or by organizations with which we have formed strategic relationships. Even though we may have contractual protections with such organizations, notifications related to a security breach could impact our reputation, harm customer confidence, hurt our expansion into new markets or cause us to lose existing customers.

Further, many foreign countries and governmental bodies, including the European Union (the "EU"), where we conduct business and have offices or utilize vendors, have laws and regulations concerning the collection and use of personal data obtained from their residents or by businesses operating within their jurisdiction. These laws and regulations often are 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 data that identifies or may be used to identify or locate an individual, such as names, email addresses and, in some jurisdictions, Internet Protocol, or IP, addresses. With regard to data transfers of personal data from our European employees and customers to the United States, we have EU-U.S. Privacy Shield and Swiss-U.S. Privacy Shield certifications in place that we believe allow for the lawful transfer of personal data from the EU and Switzerland to the United States, however, the EU-U.S. Privacy Shield, Swiss-U.S. Privacy Shield, and any other mechanisms that we use or may use in the future in an effort to legitimize cross-border data transfers may be challenged or evolve to include new legal requirements that could have an impact on data transfers. It is unclear at this time whether the EU-U.S. Privacy Shield or Swiss-U.S. Privacy Shield will continue to serve as an appropriate means for us to transfer personal data from the EU to the United States. Our means for transferring personal data from the EU and Switzerland may not be adopted by all of our customers and may be subject to legal challenge by data protection authorities, and we may experience reluctance or refusal by European customers to use our solutions due to potential risk exposure. We and our customers face a risk of enforcement actions taken by EU and Swiss data protection authorities regarding data transfers from the EU and Switzerland to the United States. In China, we continue to monitor legal and government advisory developments regarding the Chinese Cybersecurity Law and Draft Cybersecurity Review Measures for impacts to our business related to cross-border transfer limitations and evolving privacy, security, or data protection requirements.

We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, security, and data protection in the United States, the EU, and other jurisdictions. For example, the European Commission adopted a General Data Protection Regulation (the "GDPR"), which became effective on May 25, 2018 and superseded previously effective EU data protection legislation. The GDPR imposes more stringent EU data protection requirements for processors and controllers of personal data. As a regulation rather than a directive, the GDPR applies throughout all EU member states but permits member states to enact supplemental requirements in certain areas. Noncompliance with the GDPR can trigger penalties up to €20 million or 4% of global annual revenues, whichever is higher. Additionally, several states have begun enacting new data privacy laws. For example, California recently enacted legislation, the California Consumer Privacy Act ("CCPA"), that, among other things, requires covered companies to provide new disclosures to California consumers, and afford such consumers new abilities to opt out of certain sales of personal information. The CCPA became effective on January 1, 2020. The CCPA has been amended on multiple occasions and is the subject of proposed regulations of the California Attorney General that have yet to be finalized. Aspects of the CCPA and its interpretation remain unclear. The effects of the CCPA are significant and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. We cannot yet determine the impact these laws and regulations or any future laws, regulations and standards may have on our business. Such laws, regulations and standards are often subject to differing interpretations and may be inconsistent among jurisdictions. These and other requirements could reduce demand for our service, increase our costs, impair our ability to grow our business, or restrict our ability to store and process data or, in some cases, impact our ability to offer our service in some locations and may subject us to liability. Further, in view of new or modified federal, state or foreign laws and regulations, industry standards, contractual obligations and other legal obligations, or any changes in their interpretation, we may find it necessary or desirable to fundamentally change our business activities and practices or to expend significant resources to modify our software or platform and otherwise adapt to these changes. We may be unable to make such changes and modifications in a commercially reasonable manner or at all, and our ability to develop new products and features could be limited.

Further, a referendum was passed in June 2016 in which voters in the United Kingdom approved an exit from the EU, commonly referred to as "Brexit". The UK's exit from the EU pursuant to Brexit became effective January 31, 2020. Brexit has created uncertainty with regard to the regulation of data protection in the United Kingdom. The United Kingdom has implemented a Data Protection Act that substantially implements the GDPR, but it remains to be seen whether the United Kingdom's withdrawal from the EU pursuant to Brexit will substantially impact the manners in which United Kingdom data protection laws or regulations will develop in the medium to longer term and how data transfers to and from the United Kingdom will be regulated.

Our customers also expect that we comply with regulatory standards that may place additional burdens on us. Our customers expect us to meet voluntary certifications or adhere to standards established by third parties, such as the SSAE 18, SOC1 and SOC2 audit processes, and may demand that they be provided a report from our auditors that we

are in compliance. If we are unable to maintain these certifications or meet these standards, it could adversely affect our customers' demand for our service and could harm our business.

The costs of compliance with and other burdens imposed by laws, regulations and standards may limit the use and adoption of our service and reduce overall demand for it, or lead to significant fines, penalties or liabilities for any noncompliance. Privacy, security, and data protection concerns, whether valid or not valid, may inhibit market adoption of our platform, particularly in certain industries and foreign countries.

We depend and rely upon SaaS applications from third parties to operate our business and interruptions or performance problems with these technologies may adversely affect our business and operating results.

We rely heavily upon SaaS applications from third parties in order to operate critical functions of our business, including billing and order management, enterprise resource planning, and financial accounting services. If these services become unavailable due to extended outages, interruptions, or because they are no longer available on commercially reasonable terms, our expenses could increase, our ability to manage finances could be interrupted and our processes for managing sales of our solutions and supporting our customers could be impaired until equivalent services, if available, are identified, obtained, and implemented, all of which could adversely affect our business.

We rely on third-party computer hardware and software that may be difficult to replace or which could cause errors or failures of our software solutions.

We rely on computer hardware purchased or leased and software licensed from third parties in order to deliver our software solutions. This hardware and software may not continue to be available on commercially reasonable terms, if at all. Any loss of the right to use any of this hardware or software could result in delaying or preventing our ability to provide our software solutions until equivalent technology is either developed by us or, if available, identified, obtained and integrated. In addition, errors or defects in third-party hardware or software used in our software solutions could result in errors or a failure, which could damage our reputation, impede our ability to provide our platform or process information, and adversely affect our business and results of operations.

We face exposure to foreign currency exchange rate fluctuations that could harm our results of operations.

We conduct transactions, particularly intercompany transactions, in currencies other than the U.S. dollar, primarily the British pound and the Euro. As we grow our international operations, we expect the amount of our revenues that are denominated in foreign currencies to increase in the future. Accordingly, changes in the value of foreign currencies relative to the U.S. dollar could affect our revenue and operating results due to transactional and translational remeasurements that are reflected in our results of operations. As a result of such foreign currency exchange rate fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our common stock could be adversely affected.

Additionally, Brexit has adversely impacted global markets and foreign currencies. In particular, the value of the British pound declined as compared to the U.S. dollar and other currencies. This volatility in foreign currencies is expected to continue as the U.K. negotiates and executes its exit from the EU, but it is uncertain over what time period this will occur. A significantly weaker British pound compared to the U.S. dollar could have a negative effect on our business, financial condition and results of operations.

We do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

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

Our solutions are subject to export controls, including the Commerce Department's Export Administration Regulations and various economic and trade sanctions regulations established by the Treasury Department's Office of

Foreign Assets Control. Obtaining the necessary authorizations, including any required license, for a particular export or sale may be time-consuming, is not guaranteed, and may result in the delay or loss of sales opportunities. The U.S. export control laws and economic sanctions laws prohibit the export, re-export or transfer of specific products and services to U.S. embargoed or sanctioned countries, governments and persons. Even though we take precautions to prevent our solutions from being provided to U.S. sanctions targets, our solutions could be sold by resellers or could be used by persons in sanctioned countries despite such precautions. Failure to comply with the U.S. export control, sanctions and import laws could have negative consequences, including government investigations, penalties and reputational harm. We and our employees could be subject to civil or criminal penalties, including the possible loss of export or import privileges, fines, and, in extreme cases, the incarceration of responsible employees or managers. In addition, if our resellers fail to obtain appropriate import, export or re-export licenses or authorizations, we may also be adversely affected through reputational harm and penalties.

In addition, various countries regulate the import of encryption technology, including through import permitting/licensing requirements, and have enacted laws that could limit our ability to distribute our solutions or could limit our customers' ability to implement or access our solutions in those countries. Changes in our solutions or changes in export and import regulations may create delays in the introduction and sale of our solutions in international markets, prevent our customers with international operations from accessing our solutions or, in some cases, preventing the export or import of our solutions to some countries, governments or persons altogether. Any change in export or import regulations, economic sanctions or related laws, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our solutions, or in our decreased ability to export or sell our solutions to existing or potential customers with international operations. Any decreased use of our solutions or limitation on our ability to export or sell our solutions would likely adversely affect our business, financial condition and results of operations.

The nature of our business requires the application of complex revenue and expense recognition rules and the current legislative and regulatory environment affecting generally accepted accounting principles is uncertain. Significant changes in current principles could affect our financial statements going forward and changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and harm our operating results.

The accounting rules and regulations that we must comply with are complex and subject to interpretation by the FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. Recent actions and public comments from the FASB and the SEC have focused on the integrity of financial reporting and internal controls. In addition, many companies' accounting policies are being subject to heightened scrutiny by regulators and the public. Further, the accounting rules and regulations are continually changing in ways that could materially impact our financial statements. For example, in May 2014, the FASB issued Accounting Standards Update, or ASU, No. 2014-09, Revenue from Contracts with Customers ("ASC 606"), as amended, superseded nearly all existing revenue recognition guidance. The effective date of the new revenue standard was January 1, 2018. The new standard permitted adoption either by using (i) a full retrospective approach for all periods presented in the period of adoption or (ii) a modified retrospective approach with the cumulative effect of initially applying the new standard recognized at the date of initial application and providing certain additional disclosures. We adopted the new revenue guidance in the first quarter of 2018 using the full retrospective method to restate each prior reporting period presented. We assessed the impact of the new revenue guidance on our arrangements and the new standard had a material impact on our consolidated financial statements. The new guidance impacted the amount and timing of incremental costs of obtaining a contract, such as sales commissions. We generally do not pay sales commissions upon contract renewal. Accordingly, under the new revenue guidance, the sales commissions are recognized over an estimated period of benefit rather than over the non-cancelable term under current guidance. The new guidance also impacted our on-premise solutions, as we are required to recognize as revenue a significant portion of the contract consideration upon delivery of the software compared to the prior practice of recognizing the contract consideration ratably over time for certain arrangements. The new guidance requires incremental disclosures of our revenue arrangements. Adoption of this standard required changes to our business processes, systems and controls to support the new revenue recognition guidance.

We cannot predict the impact of future changes to accounting principles or our accounting policies on our financial statements going forward, which could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of the change. In addition, if we were to change our critical accounting estimates, including those related to the recognition of license revenue and other revenue sources, our operating results could be significantly affected.

Incorrect or improper implementation or use of our solutions could result in customer dissatisfaction and negatively affect our business, results of operations, financial condition, and growth prospects.

Our platform is deployed in a wide variety of technology environments and into a broad range of complex workflows. Our platform has been integrated into large-scale, enterprise-wide technology environments, and specialized use cases, and our success depends on our ability to implement our platform successfully in these environments. We often assist our customers in implementing our platform, but many customers attempt to implement even complex deployments themselves or use a third-party service firm. If we or our customers are unable to implement our platform successfully, or are unable to do so in a timely manner, customer perceptions of our platform and company may be impaired, our reputation and brand may suffer, and customers may choose not to renew or expand the use of our platform.

Our customers and third-party resellers may need training in the proper use of our platform to maximize its potential. If our platform is not implemented or used correctly or as intended, including if customers input incorrect or incomplete financial data into our platform, inadequate performance may result. Because our customers rely on our platform to manage their financial close and other financial tasks, the incorrect or improper implementation or use of our platform, our failure to train customers on how to efficiently and effectively use our platform, or our failure to provide adequate product support to our customers, may result in negative publicity or legal claims against us. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for additional subscriptions to our platform.

Any failure to offer high-quality product support may adversely affect our relationships with our customers and our financial results.

In deploying and using our solutions, our customers depend on our support services team to resolve complex technical and operational issues. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for product support. We also may be unable to modify the nature, scope and delivery of our product support to compete with changes in product support services provided by our competitors. Increased customer demand for product support, without corresponding revenue, could increase costs and adversely affect our operating results. Our sales are highly dependent on our business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality product support, or a market perception that we do not maintain high-quality product support, could adversely affect our reputation, our ability to sell our solutions to existing and prospective customers, our business, operating results, and financial position.

Unfavorable conditions in our industry or the global economy could limit our ability to grow our business and negatively affect our operating results.

Our operating results may vary based on the impact of changes in our industry or the global economy on us or our customers. General macro-economic conditions, such as a recession or economic slowdown in the U.S. or internationally, could adversely affect demand for our products and make it difficult to accurately forecast and plan our future business activities. The revenue growth and potential profitability of our business depend on demand for business software applications and services generally and for accounting and finance systems in particular. Weak economic conditions affect the rate of accounting and finance and information technology spending and could adversely affect our customers' or potential customers' ability or willingness to purchase our cloud platform, delay purchasing decisions, reduce the value or duration of their subscription contracts, or affect attrition rates, all of which could adversely affect our operating results. If economic conditions deteriorate, our customers and prospective customers may elect to decrease their accounting and finance and information technology budgets, which would limit our ability to grow our business and negatively affect our operating results. In addition, our customers may be affected by changes in trade policies, treaties, government regulations and tariffs. Trade protection measures, retaliatory actions, tariffs and increased barriers, policies favoring domestic industries, or increased import or export licensing requirements or restrictions could have a negative effect on the overall macro economy and our customers, which could have an adverse impact on our operating results.

To the extent conditions in the national and global economy change, our business could be harmed as current and potential customers may reduce or postpone spending or choose not to purchase or renew subscriptions to our products, which they may consider discretionary. For example, Brexit has caused significant political uncertainty in both the U.K. and the EU. It is possible the level of economic activity in this region will be adversely impacted, our customers' use of our products and their ventures could be adversely impacted and we could face increased exposure to foreign currency risks, each of which could adversely affect our operating results.

Uncertain economic conditions may also adversely affect third parties with which we have entered into relationships and upon which we depend in order to grow our business. As a result, we may be unable to continue to grow in the event of future economic slowdowns.

Changes in laws and regulations related to the internet and cloud computing or changes to internet infrastructure may diminish the demand for our solutions, and could have a negative impact on our business.

The future success of our business depends upon the continued use of the internet as a primary medium for commerce, communication, and business applications. Federal, state, or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the internet as a commercial medium. Regulators in some industries have also adopted, and may in the future adopt regulations or interpretive positions regarding the use of SaaS and cloud computing solutions. For example, some financial services regulators have imposed guidelines for the use of cloud computing services that mandate specific controls or require financial services enterprises to obtain regulatory approval prior to utilizing such software. Changes in these laws or regulations could require us to modify our solutions in order to comply with these changes. In addition, government agencies or private organizations have imposed and may impose additional taxes, fees, or other charges for accessing the internet or commerce conducted via the internet. These laws or charges could limit the growth of internet-related commerce or communications generally, or result in reductions in the demand for internet-based solutions and services such as ours. In addition, the use of the internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of internet activity, security, reliability, cost, ease-of-use, accessibility, and quality of service. The performance of the internet and its acceptance as a business tool has been adversely affected by “viruses,” “worms,” and similar malicious programs and the internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the internet is adversely affected by these issues, demand for our solutions could decline.

The adoption of any laws or regulations adversely affecting the growth, popularity or use of the Internet, including laws impacting Internet neutrality, could decrease the demand for our products and increase our operating costs. The current legislative and regulatory landscape regarding the regulation of the Internet and, in particular, Internet neutrality, in the United States is subject to uncertainty. The Federal Communications Commission had previously passed Open Internet rules in February 2015, which generally provided for Internet neutrality with respect to fixed and mobile broadband Internet service. On December 14, 2017, the Federal Communications Commission voted to repeal Open Internet rules generally providing for Internet neutrality with respect to fixed and mobile broadband Internet service regulations and return to a “light-touch” regulatory framework known as the “Restoring Internet Freedom Order.” The FCC’s new rules, which took effect on June 11, 2018, repealed the neutrality obligations imposed by the 2015 rules and granted providers of broadband internet access services greater freedom to make changes to their services, including, potentially, changes that may discriminate against or otherwise harm our business. However, a number of parties have appealed this order. The D.C. Circuit Court of Appeals recently upheld the FCC’s repeal, but ordered the FCC to reconsider certain elements of the repeal; thus the future impact of the FCC’s repeal and any changes thereto remains uncertain. In addition, in September 2018, California enacted the California Internet Consumer Protection and Net Neutrality Act of 2018, making California the fourth state to enact a state-level net neutrality law since the FCC repealed its nationwide regulations. This act mandated that all broadband services in California be provided in accordance with California’s net neutrality requirements. The U.S. Department of Justice has sued to block the law going into effect, and California has agreed to delay enforcement until the resolution of the FCC’s repeal of the federal rules. A number of other states are considering legislation or execution action that would regulate the conduct of broadband providers. In its recent decision on the FCC’s repeal, the D.C. Circuit Court of Appeals also ruled that the FCC does not have the authority to bar states from passing their own net neutrality rules. It is uncertain whether the FCC will argue that some state net neutrality laws are preempted by federal law and challenge such state net neutrality laws on a case-by-case basis. We cannot predict whether the FCC order or state initiatives will be modified, overturned or vacated by legal action. Additional changes in the legislative and regulatory landscape regarding Internet neutrality, or otherwise regarding the regulation of the Internet, could also harm our business.

We provide service level commitments under our customer contracts, and if we fail to meet these contractual commitments, our revenues could be adversely affected.

Our customer agreements typically provide service level commitments. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our applications, we may be contractually obligated to provide these customers with service credits, refunds for prepaid amounts related to unused subscription services, or we could face contract terminations. Our revenues could be significantly affected if we suffer unscheduled downtime that

exceeds the allowed downtimes under our agreements with our customers. Any extended service outages could adversely affect our reputation, revenues and operating results.

Our international operations subject us to potentially adverse tax consequences.

We report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the value of assets sold or acquired or income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows, and lower overall profitability of our operations. We believe that our financial statements reflect adequate reserves to cover such a contingency, but there can be no assurances in that regard.

The enactment of legislation implementing changes in the U.S. taxation of international business activities or the adoption of other tax reform policies could materially impact our financial position and results of operations.

Recent changes to U.S. tax laws, including limitations on the ability of taxpayers to claim and utilize foreign tax credits, as well as changes to U.S. tax laws that may be enacted in the future, could impact the tax treatment of our foreign earnings. Due to expansion of our international business activities, any changes in the U.S. taxation of such activities may increase our worldwide effective tax rate and adversely affect our financial position and results of operations. In addition, current and future changes to non-U.S. tax laws, including the continuing development of the Organization for Economic Cooperation and Development Base Erosion and Profit Shifting recommendations, could negatively impact the anticipated tax benefits of our international structure.

Our ability to use our net operating losses to offset future taxable income may be subject to limitations.

At December 31, 2019, we had federal and state net operating loss carryforwards (“NOLs”), of \$199.0 million and \$99.9 million, respectively. In general, under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”) a corporation that undergoes an “ownership change” is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Our existing NOLs may be subject to limitations arising from previous ownership changes, and if we undergo an ownership change, our ability to utilize NOLs could be further limited by Section 382 of the Code. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code. Furthermore, our ability to utilize NOLs of companies that we may acquire in the future may be subject to limitations. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability. The Tax Act includes changes to the U.S. federal corporate income tax rate, and our NOLs and other deferred tax assets have been revalued at the newly enacted rate. The revaluation did not have a material impact on our consolidated balance sheet and consolidated statement of operations because we currently maintain a full valuation allowance on our U.S. deferred tax assets.

Taxing authorities may successfully assert that we should have collected, or in the future should collect, sales and use, value-added or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our results of operations.

Sales and use, value-added and similar tax laws and rates vary greatly by jurisdiction and are subject to change from time to time. Some jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future. Such tax assessments, penalties and interest or future requirements may adversely affect our results of operations.

We might require additional capital to support business growth, and this capital might not be available on acceptable terms, if at all.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features or enhance our existing solutions, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured

by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired.

We may not have the ability to raise the funds necessary to settle conversions of the Notes in cash, to repurchase the Notes upon a fundamental change, or to repay the Notes in cash at their maturity (if not earlier converted, redeemed, or repurchased), and our future debt may contain limitations on our ability to pay cash upon conversions of Notes or at their maturity or to repurchase the Notes.

Holders of the Notes will have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change before the maturity date at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any, as described in an Indenture (the "Indenture") dated August 13, 2019, between us and U.S. Bank National Association, as trustee (the "Trustee"). In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the notes being converted as described in the Indenture. Moreover, we will be required to repay the Notes in cash at their maturity unless earlier converted, redeemed, or repurchased. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefor or pay cash with respect to Notes being converted or at their maturity.

In addition, our ability to repurchase Notes or to pay cash upon conversions of Notes or at their maturity may be limited by law, regulatory authority, or agreements governing our future indebtedness. Our failure to repurchase Notes at a time when the repurchase is required by the Indenture or to pay cash upon conversions of Notes or at their maturity as required by the Indenture would constitute a default under the Indenture. A default under the Indenture or the fundamental change itself could also lead to a default under agreements governing our existing and future indebtedness. Moreover, the occurrence of a fundamental change under the Indenture could constitute an event of default under any such agreement. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay such indebtedness and repurchase the notes or pay cash with respect to Notes being converted or at maturity of the Notes.

We are subject to counterparty risk with respect to the capped call transactions (the "Capped Calls").

The counterparties to the Capped Calls are financial institutions and are subject to the risk that one or more of the counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the Capped Calls. Our exposure to the credit risk of the counterparties is not secured by any collateral.

Global economic conditions have in the past resulted in the actual or perceived failure or financial difficulties of many financial institutions. If a counterparty to one or more Capped Calls becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under such transactions. Our exposure will depend on many factors but, generally, our exposure will increase if the market price or the volatility of our common stock increases. In addition, upon a default or other failure to perform, or a termination of obligations, by a counterparty, the counterparty may fail to deliver the shares of common stock required to be delivered to us under the Capped Calls and we may suffer adverse tax consequences or experience more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the counterparties.

Natural disasters and other events beyond our control could harm our business.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce and the global economy, and thus could have a strong negative effect on us. Our business operations are subject to interruption by natural disasters, fire, power shortages, pandemics and other events beyond our control. Although we maintain crisis management and disaster response plans, such events could make it difficult or impossible for us to deliver our solutions to our customers, and could decrease demand for our solutions. The majority of our research and development activities, corporate headquarters, information technology systems and other critical business operations are located in California, which has experienced major earthquakes in the past. Significant recovery time could be required to resume operations and our financial condition and operating results could be harmed in the event of a major earthquake or catastrophic event.

If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.

We review our goodwill and intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. At December 31, 2019, we had goodwill and intangible assets with a net book value of \$202.7 million related to the 2013 Acquisition and the Runbook Acquisition. An adverse change in market conditions, particularly if such change has the effect of changing one of our critical assumptions or estimates, could result in a change to the estimation of fair value that could result in an impairment charge to our goodwill or intangible assets. Any such charges may have a material negative impact on our operating results.

Risks Related to Ownership of our Common Stock

The market price of our common stock may be volatile, and you could lose all or part of your investment.

The market price of our common stock since our initial public offering has been and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control and may not be related to our operating performance. Factors that could cause fluctuations in the market price of our common stock include the following:

- actual or anticipated fluctuations in our operating results;
- 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 our company, changes in financial estimates by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- ratings changes by any securities analysts who follow our company;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic relationships, joint ventures, or capital commitments;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market from time to time, including as a result of trends in the economy as a whole;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- actual or perceived privacy, security, or data protection incidents;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- developments or disputes concerning our intellectual property, or our products or third-party proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations, or new interpretations of existing laws or regulations applicable to our business;
- any major change in our board of directors or management;
- sales of shares of our common stock by us or our stockholders;
- lawsuits threatened or filed against us; and
- other events or factors, including those resulting from war, incidents of terrorism, outbreaks of pandemic diseases, or responses to these events.

In addition, the stock markets, and in particular the market on which our common stock is listed, 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 operating our business, and adversely affect our business, results of operations, financial condition and cash flows.

Certain of our Principal Stockholders hold a significant percentage of our common stock, and their interests may differ from those of other stockholders.

At December 31, 2019, our Principal Stockholders beneficially owned, in the aggregate, approximately 18% of our outstanding common stock and three directors affiliated with our Principal Stockholders serve on our board of directors. Further, pursuant to the Stockholders' Agreement with the Principal Stockholders, we anticipate that the parties to the Stockholders' Agreement will agree to vote for certain board nominees as well as other directors recommended by our nominating and corporate governance committee.

We are no longer a "controlled company" within the meaning of the corporate governance rules of the NASDAQ Stock Market because our Principal Stockholders no longer control more than a majority of our outstanding stock. Although we previously qualified as a "controlled company," we elected not to take advantage of the "controlled company" exemption and are in full compliance with all corporate governance requirements under the NASDAQ Stock Market rules.

Further, our amended and restated certificate of incorporation provides that, to the fullest extent permitted by law, the doctrine of "corporate opportunity" will not apply to Iconiq, their respective affiliates or any director they designate, pursuant to their rights under the Stockholders' Agreement in a manner that would prohibit them from investing in competing businesses or doing business with our partners or customers. Accordingly, any director designated by Iconiq will have the rights to pursue business opportunities that may be of interest to the company and which such director would otherwise need to provide to the company.

Substantial future sales of shares of our common stock could cause the market price of our common stock to decline.

The market price of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors, executive officers and significant stockholders, a large number of shares of our common stock becoming available for sale or the perception in the market that holders of a large number of shares intend to sell their shares.

In November 2017, we filed a shelf registration statement on Form S-3 that registered the sale of 33,738,329 shares of our common stock then held by certain stockholders, from time to time, in secondary offerings. In December 2017, March 2018, May 2018, and March 2019, certain stockholders sold an aggregate of 4,500,000 shares, 8,000,000 shares, 3,500,000 shares, and 4,883,873 shares, respectively, under the registration statement and the remaining 12,854,456 shares registered under the registration statement may be offered and sold without restriction under the Securities Act. Such shares may be offered from time to time in the open market, in block trades, in underwritten offerings or in any other transaction described in the related prospectus. All shares covered by the registration statement are immediately tradeable unless transferred to an affiliate of the Company.

Sales of our common stock by our current stockholders may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the market price of our common stock to decline and make it more difficult for you to sell shares of our common stock.

Provisions of our corporate governance documents could make an acquisition of the company more difficult and may impede attempts by our stockholders to replace or remove our current management, even if beneficial to our stockholders.

Our amended and restated certificate of incorporation and amended and restated bylaws and the Delaware General Corporation Law (the "DGCL") contain provisions that could make it more difficult for a third-party to acquire us, even if doing so might be beneficial to our stockholders. Among other things:

- we have authorized but unissued shares of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include supermajority voting, special approval, dividend, or other rights or preferences superior to the rights of stockholders;
- we have a classified board of directors with staggered three-year terms;
- stockholder action by written consent is prohibited;

- any amendment, alteration, rescission or repeal of our amended and restated bylaws or of certain provisions of our amended and restated certificate of incorporation by our stockholders requires the affirmative vote of the holders of at least 75% of the voting power of our stock entitled to vote thereon, voting together as a single class outstanding; and
- stockholders are required to comply with advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Further, as a Delaware corporation, we are also subject to provisions of Delaware law, which may impair a takeover attempt that our stockholders may find beneficial. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of the company, including actions that our stockholders may deem advantageous, or negatively affect the trading price of our common stock. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

The requirements of being a public company may strain our resources, divert management’s attention, and affect our ability to attract and retain executive management and qualified board members.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the listing requirements of the exchanges and other markets upon which our common stock is listed, and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, make some activities more difficult, time-consuming, or costly, and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. We are required to disclose changes made in our internal control and procedures on a quarterly basis and are required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting on an annual basis. Additionally, our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting pursuant to Section 404. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management’s attention may be diverted from other business concerns, which could adversely affect our business and operating results. Although we have hired additional employees to assist us in complying with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our operating expenses.

In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time-consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest substantial resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management’s time and attention from business operations to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

As a result of increased disclosure of information in the filings required in a public company, our business and financial condition has become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

We do not intend to pay dividends on our common stock so any returns will be limited to changes in the value of our common stock.

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain future earnings for the development, operation, and expansion of our business, and do not anticipate declaring or paying any cash dividends for the foreseeable future. Any return to stockholders will therefore be limited to the increase, if any, of our stock price, which may never occur.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If few securities analysts commence coverage of us, or if industry analysts cease coverage of us, the trading price for our common stock would be negatively affected. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our common stock price and trading volume to decline.

Our amended and restated bylaws designate a state or federal court located within the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Pursuant to our amended and restated bylaws, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action asserting a claim against us arising pursuant to any provision of the DGCL, or (4) any action asserting a claim against us that is governed by the internal affairs doctrine shall be a state or federal court located within the State of Delaware, in all cases subject to the court's having personal jurisdiction over indispensable parties named as defendants. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to this provision. The forum selection clause in our amended and restated bylaws may have the effect of discouraging lawsuits against us or our directors and officers and may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal executive offices are located in Woodland Hills, California where we occupy approximately 89,000 square feet of space under a lease that expires in January 2024. We also occupy additional leased offices located in Australia, Canada, France, Germany, Netherlands, Singapore, and the United Kingdom. We believe that our properties are generally suitable to meet our needs for the foreseeable future. In addition, to the extent we require additional space in the future, we believe that it would be readily available on commercially reasonable terms.

Item 3. Legal Proceedings

From time to time, we may be subject to legal proceedings arising in the ordinary course of business. In addition, from time to time, third parties may assert intellectual property infringement claims against us in the form of letters and other forms of communication. As of the date of this Annual Report on Form 10-K for the year ended December 31, 2019, we are not a party to any litigation the outcome of which, if determined adversely to us, would individually or in the aggregate be reasonably expected to have a material adverse effect on our results of operations, prospects, cash flows, financial position or brand.

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 for Our Common Stock and Related Stockholder Matters

Our common stock has been traded on the NASDAQ Global Select Market under the symbol "BL" since October 28, 2016. Prior to that time, there was no public market for our common stock.

Holders of Record

At February 21, 2020, there were 17 shareholders of record. The number of record holders does not include beneficial holders who hold their shares in "street name," meaning that the shares are held for their accounts by a broker or other nominee. Accordingly, we believe that the total number of beneficial holders is higher than the number of our shareholders of record.

Dividend Policy

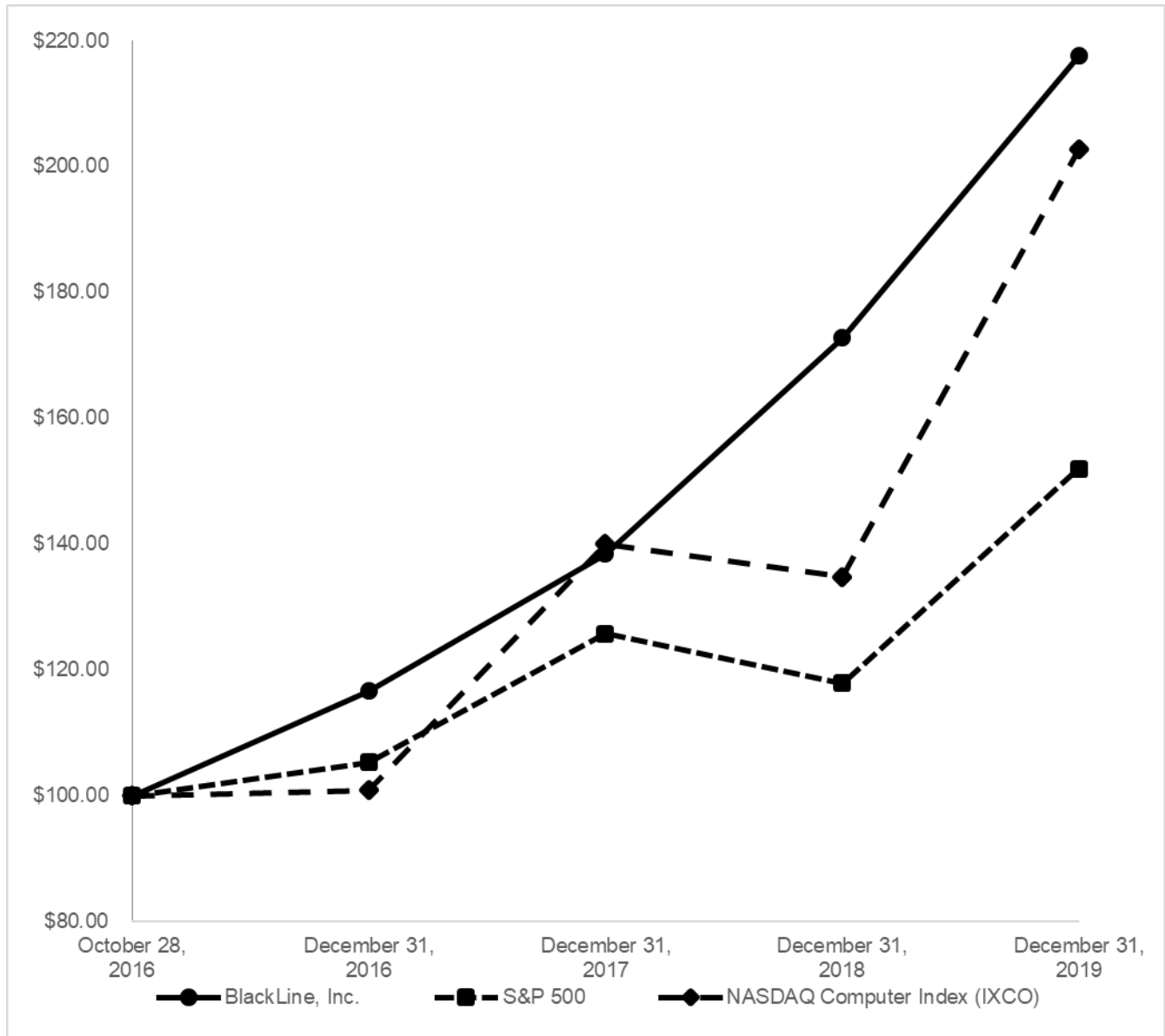
We have never declared or paid any cash dividends on our common stock. We currently intend to retain all of our future earnings, if any, to finance our operations and do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any future determination as to the declaration and payment of dividends will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects, and other factors our board of directors may deem relevant.

Stock Price Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, or the SEC, for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Securities Act.

The following graph compares (i) the cumulative total stockholder return on our common stock from October 28, 2016 (the date our common stock commenced trading on the NASDAQ Global Select Market) through December 31, 2019 with (ii) the cumulative total return of the S&P 500 Index and the NASDAQ Computer & Data Processing Index over the same period, assuming the investment of \$100 in our common stock and in both of the other indices on October 28, 2016 and the reinvestment of dividends. The graph uses the closing market price on October 28, 2016 of \$23.70 per share as the initial value of our common stock. As discussed above, we have never declared or paid a cash dividend on our common stock and do not anticipate declaring or paying a cash dividend in the foreseeable future.

COMPARISON OF CUMULATIVE TOTAL RETURN*



*Returns are based on historical results and are not necessarily indicative of future performance. See the disclosure in Part I, Item 1A. "Risk Factors."

Unregistered Sales of Equity Securities

None.

Use of Proceeds

None.

Issuer Purchases of Equity Securities

None.

Item 6. *Selected Financial Data*

The consolidated statements of operations data for the years ended December 31, 2019, 2018, and 2017 and the consolidated balance sheet data at December 31, 2019 and 2018 are derived from our audited financial statements included elsewhere in this Annual Report on Form 10-K. Such consolidated financial data reflects the correction of certain immaterial tax misstatements discussed in Part II, Item 8 “Financial Statements and Supplementary Data—Note 2 to the Consolidated Financial Statements—Significant Accounting Policies.”

The consolidated statements of operations data for the years ended December 31, 2016 and 2015 and the consolidated balance sheet data at December 31, 2017, 2016, and 2015 are derived from our financial statements not included in this Annual Report on Form 10-K.

The selected consolidated financial data below are not necessarily indicative of future performance and should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes thereto included in Item 8 of this Annual Report on Form 10-K.

Consolidated Statements of Operations Data (in thousands, except per share data):

	Year Ended December 31,				
	2019(1)	2018(1)(3)	2017(1)(3)	2016(1)(2)(3)	2015(1)
	(in thousands, except per share data)				
Revenues					
Subscription and support	\$ 272,447	\$ 217,406	\$ 167,081	\$ 122,441	\$ 80,080
Professional services	16,529	10,382	8,522	5,593	3,527
Total revenues	288,976	227,788	175,603	128,034	83,607
Cost of revenues					
Subscription and support	44,968	41,428	33,530	25,900	19,773
Professional services	14,007	9,446	7,855	4,311	2,956
Total cost of revenues(4)(5)	58,975	50,874	41,385	30,211	22,729
Gross profit	230,001	176,914	134,218	97,823	60,878
Operating expenses					
Sales and marketing(4)(5)	158,837	128,808	103,967	71,970	56,546
Research and development(4)	43,006	30,754	23,874	21,125	18,216
General and administrative(4)(5)(6)	56,057	47,188	36,786	27,911	20,928
Total operating expenses	257,900	206,750	164,627	121,006	95,690
Loss from operations	(27,899)	(29,836)	(30,409)	(23,183)	(34,812)
Other income (expense)					
Interest income	6,128	2,136	1,069	4	—
Interest expense	(8,650)	(4)	(13)	(5,936)	(3,215)
Change in fair value of the common stock warrant liability	—	—	(3,490)	(5,880)	(420)
Other income (expense), net	(2,522)	2,132	(2,434)	(11,812)	(3,635)
Loss before income taxes	(30,421)	(27,704)	(32,843)	(34,995)	(38,447)
Provision for (benefit from) income taxes	1,725	1,072	565	(8,058)	(13,713)
Net loss	(32,146)	(28,776)	(33,408)	(26,937)	(24,734)
Net loss attributable to non-controlling interest	(1,444)	(62)	—	—	—
Adjustment attributable to non-controlling interest	1,833	—	—	—	—
Net loss attributable to BlackLine, Inc.	<u>\$ (32,535)</u>	<u>\$ (28,714)</u>	<u>\$ (33,408)</u>	<u>\$ (26,937)</u>	<u>\$ (24,734)</u>
Basic net loss per share attributable to BlackLine, Inc.	<u>\$ (0.59)</u>	<u>\$ (0.53)</u>	<u>\$ (0.64)</u>	<u>\$ (0.63)</u>	<u>\$ (0.61)</u>
Shares used to calculate basic net loss per share	55,320	53,912	52,161	42,497	40,579
Diluted net loss per share attributable to BlackLine, Inc.	<u>\$ (0.59)</u>	<u>\$ (0.53)</u>	<u>\$ (0.64)</u>	<u>\$ (0.63)</u>	<u>\$ (0.61)</u>
Shares used to calculate diluted net loss per share	55,320	53,912	52,161	42,497	40,579

- (1) On January 1, 2018, we adopted ASC 606, *Revenue from Contracts with Customers* using the full retrospective method applied to all contracts. Results for the years ended December 31, 2019, 2018, 2017, and 2016 are presented under ASC 606, while the results for the year ended December 31, 2015 have not been adjusted for ASC 606.
- (2) On August 31, 2016, we completed the Runbook Acquisition. The Runbook Acquisition was accounted for as a business combination. The results of Runbook are included in our consolidated results of operations for the periods subsequent to the acquisition date.
- (3) Revised to correct for immaterial tax errors, which had previously understated provision for (benefit from) income taxes by \$0.9 million, \$0.4 million, and \$0.6 million, for the years ended December 31, 2018, 2017, and 2016, respectively.

- (4) The following table presents stock-based compensation included in each respective expense category (in thousands):

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Cost of revenues	\$ 4,814	\$ 3,265	\$ 1,149	\$ 715	\$ 466
Sales and marketing	15,389	8,674	10,811	2,490	2,418
Research and development	4,729	2,570	767	809	588
General and administrative	9,120	6,386	3,317	2,512	2,025
	<u>\$ 34,052</u>	<u>\$ 20,895</u>	<u>\$ 16,044</u>	<u>\$ 6,526</u>	<u>\$ 5,497</u>

- (5) The following table presents the amortization of intangible assets included in each respective expense category (in thousands):

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Cost of revenues	\$ 4,797	\$ 6,863	\$ 6,847	\$ 6,368	\$ 6,139
Sales and marketing	3,872	3,887	3,872	3,605	3,487
General and administrative	1,596	2,273	2,591	2,532	2,466
	<u>\$ 10,265</u>	<u>\$ 13,023</u>	<u>\$ 13,310</u>	<u>\$ 12,505</u>	<u>\$ 12,092</u>

- (6) General and administrative expenses include increases in fair value of contingent consideration of \$46,000, \$0.5 million, \$0.6 million, \$0.4 million, and \$41,000, for the years ended December 31, 2019, 2018, 2017, 2016, and 2015, respectively.

Consolidated Balance Sheet Data (in thousands):

	December 31,				
	2019(1)	2018(1)(2)	2017(1)(2)	2016(1)(2)	2015(1)
Cash and cash equivalents	\$ 120,232	\$ 46,181	\$ 31,104	\$ 22,118	\$ 15,205
Marketable securities	487,515	86,396	81,476	83,130	—
Total assets	1,014,552	493,481	460,722	434,205	286,750
Deferred revenue	162,552	129,074	104,184	77,660	52,750
Deferred revenue, noncurrent	163	277	468	489	—
Capital lease obligations, net of current portion	—	—	—	—	558
Long-term debt	—	—	—	—	28,267
Convertible senior notes, net	384,343	—	—	—	—
Redeemable non-controlling interest	4,905	4,387	—	—	—
Total stockholders' equity	398,613	319,267	315,913	308,042	166,168

- (1) On January 1, 2018, we adopted ASC 606, *Revenue from Contracts with Customers* using the full retrospective method applied to all contracts. Balance sheet data for December 31, 2019, 2018, 2017, and 2016 is presented under ASC 606, while balance sheet data for December 31, 2015 has not been adjusted for ASC 606.
- (2) Revised to correct for immaterial tax errors, which had previously resulted in the overstatement of total assets by \$0.4 million, \$0.1 million, and \$0.1 million at December 31, 2018, 2017, and 2016, respectively, as well as total stockholders' equity by \$2.3 million, \$1.4 million, and \$1.0 million at December 31, 2018, 2017, and 2016, respectively.

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

The following discussion of our financial condition and results of operations should be read together with the financial statements and the related notes set forth in Item 8, "Financial Statements and Supplementary Data." The following discussion also contains forward-looking statements that involve a number of risks and uncertainties. See Part I, "Special Note Regarding Forward-Looking Statements" for a discussion of the forward-looking statements contained below and Part I, Item 1A, "Risk Factors" for a discussion of certain risks that could cause our actual results to differ materially from the results anticipated in such forward-looking statements.

The consolidated financial statements for the years ended December 31, 2019, 2018, and 2017 have been revised to correct for prior period errors as discussed in Item 8 — Note 2, "Significant Accounting Policies". Accordingly, this Management's Discussion and Analysis of Financial Condition and Results of Operations reflect the effects of the revisions.

Overview

We have created a comprehensive cloud-based software platform designed to transform and modernize accounting and finance operations for organizations of all types and sizes. Our secure, scalable platform supports critical accounting processes such as the financial close, account reconciliations, intercompany accounting, and controls assurance. By introducing software to automate these processes and to enable them to function continuously, we empower our customers to improve the integrity of their financial reporting, increase efficiency in their accounting and finance processes and enhance real-time visibility into their operations.

At December 31, 2019, we had over 267,000 individual users across more than 3,000 customers exclusive of on-premise software. Additionally, we continue to build strategic relationships with technology vendors, professional services firms, business process outsourcers, and resellers.

We are a holding company and conduct our operations through our wholly-owned subsidiary, BlackLine Systems, Inc. ("BlackLine Systems"). BlackLine Systems funded its business with investments from our founder and cash flows from operations until September 3, 2013. On September 3, 2013, we acquired BlackLine Systems, and Silver Lake Sumeru and Iconiq acquired a controlling interest in us, which we refer to as the "2013 Acquisition." The 2013 Acquisition was accounted for as a business combination under GAAP and resulted in a change in accounting basis as of the date of the 2013 Acquisition.

Our platform consists of eight core cloud-based products, including Transaction Matching, Account Reconciliations, Consolidation Integrity Manager, Daily Reconciliations, Journal Entry, Variance Analysis, Task Management, and Compliance. Customers typically purchase these products in packages that we refer to as solutions, but they have the option to purchase these products individually. Current solutions include Balance Sheet Integrity, Close Process Management, Accounting Process Automation, Finance Transformation, Intercompany Hub and Smart Close.

We derived approximately 94% of our revenue from subscriptions to our cloud-based software platform and approximately 6% from professional services for the year ended December 31, 2019. The majority of subscriptions are sold through one-year non-cancellable contracts, with a growing percentage of subscriptions sold through three-year contracts. We price our subscriptions based on a number of factors, primarily the number of users having access to the products and the number of products purchased by the customer. Subscription revenue is recognized ratably over the term of the customer contract. The first year of subscription fees are typically payable within 30 days after execution of a contract, and thereafter upon renewal.

Professional services consist of implementation and consulting services. Although our platform is ready to use immediately after a new customer has access to it, we typically help customers implement our solutions for a fixed fee, which is initially recorded as deferred revenue and recognized on a proportional performance basis as the services are performed. We also provide consulting services to help customers optimize the use of our products. We charge customers for our consulting services on a time-and-materials basis and we recognize that revenue as services are performed.

We typically invoice customers annually in advance for annual and multi-year subscriptions and invoice in advance or on a time-and-materials basis for professional services. We record amounts invoiced for portions of annual subscription periods that have not occurred or services that have not been performed as deferred revenue on our consolidated balance sheet.

We sell our solutions primarily through our direct sales force, which leverages our relationships with technology vendors, professional services firms and business process outsourcers. In particular, our solution is an SAP endorsed

business solution that integrates with SAP's ERP solutions. In the fourth quarter of 2018, SAP became part of the reseller channel that we use in the ordinary course of business. SAP has the ability to resell our accounting solutions, for which we receive a percentage of the revenues. Since October 1, 2018, we are no longer obligated to pay SAP a fee based on a percentage of revenues from our new customers that use an SAP ERP solution.

Our ability to maximize the lifetime value of our customer relationships will depend, in part, on the willingness of the customer to purchase additional user licenses and products from us. We rely on our sales and customer success teams to support and grow our existing customers by maintaining high customer satisfaction and educating the customer on the value all our products provide.

The length of our sales cycle depends on the size of the potential customer and contract, as well as the type of solution or product being purchased. The sales cycle for our global enterprise customers is generally longer than that of our mid-market customers. In addition, the length of the sales cycle tends to increase for larger contracts and for more complex, strategic products like Intercompany Hub. As we continue to focus on increasing our average contract size and selling more strategic products, we expect our sales cycle to lengthen and become less predictable, which could cause variability in our results for any particular period.

We have historically signed a high percentage of agreements with new customers, as well as renewal agreements with existing customers, in the fourth quarter of each year and usually during the last month of the quarter. This can be attributed to buying patterns typical in the software industry. As the terms of most of our customer agreements are measured in full year increments, agreements initially entered into the fourth quarter or last month of any quarter will generally come up for renewal at that same time in subsequent years. This seasonality is reflected in our revenues, though the impact to overall annual or quarterly revenues is minimal due to the fact that we recognize subscription revenue ratably over the term of the customer contract.

For the years ended December 31, 2019, 2018, and 2017, we had revenues totaling \$289.0 million, \$227.8 million, and \$175.6 million, respectively, and we incurred net losses attributable to Blackline, Inc. of \$32.5 million, \$28.7 million, and \$33.4 million, respectively.

Key Metrics

We regularly review a number of metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections, and make strategic decisions. Each of the metrics below exclude the impact of on-premise software.

	Year Ended December 31,		
	2019	2018	2017
Dollar-based net revenue retention rate	110%	108%	112%
Number of customers	3,024	2,631	2,208
Number of users	267,621	222,619	196,612

Dollar-based net revenue retention rate. We believe that dollar-based net revenue retention rate is an important metric to measure the long-term value of customer agreements and our ability to retain and grow our relationships with existing customers over time. We calculate dollar-based net revenue retention rate as the implied monthly subscription and support revenue at the end of a period for the base set of customers from which we generated subscription revenue in the year prior to the calculation, divided by the implied monthly subscription and support revenue one year prior to the date of calculation for that same customer base. This calculation does not reflect implied monthly subscription and support revenue for new customers added during the one-year period but does include the effect of customers who terminated during the period. We define implied monthly subscription and support revenue as the total amount of minimum subscription and support revenue contractually committed to, under each of our customer agreements over the entire term of the agreement, divided by the number of months in the term of the agreement. Our ability to maximize the lifetime value of our customer relationships will depend, in part, on the willingness of the customer to purchase additional user licenses and products from us. We rely on our customer success and sales teams to support and grow our existing customers by maintaining high customer satisfaction and educating the customer on the value all our products provide.

Number of customers. We believe that our ability to expand our customer base is an indicator of our market penetration and the growth of our business. We define a customer as an entity with an active subscription agreement as of the measurement date. In situations where an organization has multiple subsidiaries or divisions, each entity that is

invoiced as a separate entity is treated as a separate customer. However, where an existing customer requests its invoice be divided for the sole purpose of restructuring its internal billing arrangement without any incremental increase in revenue, such customer continues to be treated as a single customer. For the years ended December 31, 2019, 2018, and 2017, no single customer accounted for more than 10% of our total revenues.

Number of users. Since our customers generally pay fees based on the number of users of our platform within their organization, we believe the total number of users is an indicator of the growth of our business. We are also beginning to sell an increasing number of non-user based strategic products, such as Transaction Matching and Intercompany Hub.

Key Components of our Results of Operations

Revenues

Subscription and support. The majority of subscriptions are sold through one-year non-cancellable contracts and a growing percentage of subscriptions are sold through three-year contracts. Fees are based on a number of factors, including the solutions subscribed for by the customer and the number of users having access to the solutions. The first year of subscription fees are typically payable within 30 days after execution of a contract, and thereafter upon renewal. We initially record the subscription fees as deferred revenue and recognize revenue ratably over the term of the contract. At any time during the subscription period, customers may increase their number of users and add products. Additional fees are payable for the remainder of the initial or renewed contract term. Customers may only reduce their number of users or subscription to products upon renewal of their arrangement. Revenues from subscriptions to our cloud-based software platform comprised approximately 94% of our revenues for the year ended December 31, 2019.

Subscription and support revenues also include revenues associated with sales of on-premise software licenses and related support. Prior to our migration to SaaS in 2012, we licensed our legacy on-premise software. We no longer develop any new applications or functionality for our legacy on-premise software, but we continue to provide post-contract support to one customer that had not migrated to our SaaS solution at December 31, 2019.

Professional services. We offer our customers implementation and consulting services. Although our platform is ready to use immediately after a new customer has access to it, we typically help customers implement our solutions for a fixed fee. We also provide consulting and training services to help customers optimize the use of our products. These services are considered distinct performance obligations. Professional services do not result in significant customization of the subscription service. We apply the practical expedient to recognize professional services revenue when we have the right to invoice based on time and materials incurred. Professional services revenues comprised approximately 6% of our revenues for the year ended December 31, 2019.

For a description of our revenue accounting policies, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates.”

Cost of Revenues

Subscription and support cost of revenues. Subscription and support cost of revenues primarily consists of amortization of developed technology costs resulting from the 2013 Acquisition and the Runbook Acquisition, salaries, benefits and stock-based compensation associated with our hosting operations and support personnel, data center costs related to hosting our cloud-based software, and amortization of capitalized internal-use software costs. We also allocate a portion of overhead to subscription and support cost of revenues.

Professional services costs of revenues. Costs associated with providing professional services primarily consist of salaries, benefits and stock-based compensation associated with our implementation personnel. These costs are expensed as incurred when the services are performed. We also allocate a portion of overhead to professional services cost of revenues.

Operating Expenses

Sales and marketing. Sales and marketing expenses consist primarily of personnel costs of our sales and marketing employees, including salaries, sales commissions and incentives, benefits and stock-based compensation expense, travel and related costs, commissions paid in connection with our strategic relationships, outside consulting fees, marketing programs, including lead generation, costs of our annual conference, advertising, and trade shows, other event expenses, and allocated overhead costs. Sales and marketing expenses also include amortization of customer relationship intangible assets. We defer sales and partner commissions and amortize them over an estimated period of

benefit of five years. We expect the annual trend in sales and marketing expenses to continue to increase as we expand our direct sales teams and increase sales through our strategic relationships and resellers.

Research and development. Research and development expenses consist primarily of salaries, benefits and stock-based compensation associated with our engineering, product and quality assurance personnel and allocated overhead costs. Research and development expenses also include the cost of third-party contractors. Other than internal-use software development costs that qualify for capitalization, research and development costs are expensed as incurred. We expect research and development costs to increase as we develop new solutions and make improvements to our existing platform.

General and administrative. General and administrative expenses consist primarily of salaries, benefits and stock-based compensation associated with our executive, finance, legal, human resources, compliance, and other administrative personnel, accounting, auditing and legal professional services fees, recruitment costs, other corporate-related expenses, and allocated overhead costs. General and administrative expenses also include amortization of covenant not to compete and tradename intangible assets, and the change in fair value of contingent consideration. We expect that general and administrative expenses will increase as we incur the costs of compliance associated with being a publicly-traded company, including legal, audit and consulting fees.

Interest Income

Interest income primarily consists of earnings on our cash and cash equivalents and our marketable securities.

Interest Expense

Interest expense consists primarily of interest expense associated with our Convertible Senior Notes (the "Notes") issued in August 2019.

Change in Fair Value of Common Stock Warrant Liability

We issued warrants to purchase common stock in connection with our credit facility. The warrants were measured at fair value each period, with changes in fair value recorded in our consolidated statements of operations. The stock warrants were exercised in May 2017 and, accordingly, there will be no further changes in the fair value recorded in our results of operations.

Provision for (Benefit from) Income Taxes

We are subject to federal and state income taxes in the United States and taxes in foreign jurisdictions. We use the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities, using tax rates expected to be in effect during the years in which the bases differences are expected to reverse.

We record a valuation allowance against our deferred tax assets to the extent that realization of the deferred tax assets, including consideration of our deferred tax liabilities, is not more likely than not. For the year ended December 31, 2019, for both federal and state income taxes, our deferred assets exceeded our deferred tax liabilities and because of our recent history of operating losses we believe that the realization of the deferred tax assets is currently not more likely than not. Accordingly, we have recorded a valuation allowance against our federal, state, and certain foreign deferred tax assets.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe the non-GAAP measures below are useful to us and our investors in evaluating our business. These non-GAAP financial measures are useful because they provide consistency and comparability with our past performance, facilitate period-to-period comparisons of operations and facilitate comparisons with other peer companies, many of which use similar non-GAAP financial measures to supplement their GAAP results.

	Year Ended December 31,		
	2019	2018	2017
	(in thousands, except percentages)		
GAAP gross profit	\$ 230,001	\$ 176,914	\$ 134,218
GAAP gross margin	79.6%	77.7%	76.4%
GAAP net loss attributable to BlackLine, Inc.	\$ (32,535)	\$ (28,714)	\$ (33,408)

	Year Ended December 31,		
	2019	2018	2017
	(in thousands, except percentages)		
Non-GAAP gross profit	\$ 239,612	\$ 187,042	\$ 142,214
Non-GAAP gross margin	82.9%	82.1%	81.0%
Non-GAAP net income attributable to BlackLine, Inc.	\$ 21,993	\$ 5,515	\$ 1,180

Non-GAAP Gross Profit and Non-GAAP Gross Margin. Non-GAAP gross profit is defined as GAAP revenues less GAAP cost of revenue adjusted for the amortization of acquired developed technology resulting from the 2013 Acquisition and the Runbook Acquisition, and stock-based compensation. Non-GAAP gross margin is defined as non-GAAP gross profit divided by GAAP revenues. We believe that presenting non-GAAP gross margin is useful to investors as it eliminates the impact of certain non-cash expenses and allows a direct comparison of gross margin between periods.

Non-GAAP Net Income. Non-GAAP net income is defined as GAAP net loss adjusted for the impact of the provision for (benefit from) income taxes that we were able to recognize as a result of the deferred tax liabilities associated with the intangible assets established upon the 2013 Acquisition and the Runbook Acquisition, amortization of acquired intangible assets resulting from the 2013 Acquisition and the Runbook Acquisition, stock-based compensation, the amortization of debt discount and issuance costs from our convertible notes, the change in the fair value of contingent consideration, the change in fair value of the common stock warrant liability, legal settlement gains, cost incurred in relation to our secondary offering, cost incurred relating to our shelf offering, and adjustment to redeemable non-controlling interest. We believe that presenting non-GAAP net income is useful to investors as it eliminates the impact of items that have been impacted by the 2013 Acquisition and the Runbook Acquisition, purchase accounting and other related costs in order to allow a direct comparison of net income (loss) between current and historical periods.

Reconciliation of Non-GAAP Financial Measures

The following table presents a reconciliation of gross profit, gross margin, and net loss, the most comparable GAAP measures to non-GAAP gross profit, non-GAAP gross margin and non-GAAP net income:

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Non-GAAP Gross Profit:			
Gross profit	\$ 230,001	\$ 176,914	\$ 134,218
Amortization of developed technology	4,797	6,863	6,847
Stock-based compensation expense	4,814	3,265	1,149
Total non-GAAP gross profit	<u>\$ 239,612</u>	<u>\$ 187,042</u>	<u>\$ 142,214</u>
Gross margin	79.6%	77.7%	76.4%
Non-GAAP gross margin	82.9%	82.1%	81.0%
Non-GAAP Net Income Attributable to BlackLine, Inc.:			
Net loss attributable to BlackLine, Inc.	\$ (32,535)	\$ (28,714)	\$ (33,408)
Provision for (benefit from) income taxes	90	(540)	(511)
Amortization of intangible assets	10,265	13,023	13,310
Stock-based compensation	34,052	20,895	16,044
Amortization of debt discount and issuance costs	8,410	—	—
Change in fair value of contingent consideration	46	450	628
Change in fair value of the common stock warrant liability	—	—	3,490
Legal settlement gains	(380)	—	—
Secondary offering costs	—	—	809
Shelf offering costs	212	401	818
Adjustment to redeemable non-controlling interest	1,833	—	—
Total non-GAAP net income attributable to BlackLine, Inc.	<u>\$ 21,993</u>	<u>\$ 5,515</u>	<u>\$ 1,180</u>

Results of Operations

The following tables set forth selected historical consolidated statements of operations data, which should be read in conjunction with Critical Accounting Policies and Estimates, Liquidity and Capital Resources, and Contractual Obligations and Commitments included in this Item 7, as well as Quantitative and Qualitative Disclosures About Market Risk and the Consolidated Financial Statements and Notes thereto included elsewhere in this Annual Report on Form 10-K.

Consolidated statements of operations information was as follows (in thousands):

The following table presents our consolidated results of operations and reflects the revisions as discussed in Item 8 — Note 2, “Significant Accounting Policies”:

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Revenues			
Subscription and support	\$ 272,447	\$ 217,406	\$ 167,081
Professional services	16,529	10,382	8,522
Total revenues	288,976	227,788	175,603
Cost of revenues			
Subscription and support	44,968	41,428	33,530
Professional services	14,007	9,446	7,855
Total cost of revenues	58,975	50,874	41,385
Gross profit	230,001	176,914	134,218
Operating expenses			
Sales and marketing	158,837	128,808	103,967
Research and development	43,006	30,754	23,874
General and administrative	56,057	47,188	36,786
Total operating expenses	257,900	206,750	164,627
Loss from operations	(27,899)	(29,836)	(30,409)
Other income (expense)			
Interest income	6,128	2,136	1,069
Interest expense	(8,650)	(4)	(13)
Change in fair value of the common stock warrant liability	-	—	(3,490)
Other income (expense), net	(2,522)	2,132	(2,434)
Loss before income taxes	(30,421)	(27,704)	(32,843)
Provision for income taxes	1,725	1,072	565
Net loss	(32,146)	(28,776)	(33,408)
Net loss attributable to non-controlling interest	(1,444)	(62)	—
Adjustment attributable to non-controlling interest	1,833	—	—
Net loss attributable to BlackLine, Inc.	\$ (32,535)	\$ (28,714)	\$ (33,408)

Comparison of Years Ended December 31, 2019, 2018, and 2017

Revenues

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2019	2018	\$	%	2018	2017	\$	%
	(in thousands, except percentages)							
Subscription and support	\$ 272,447	\$217,406	\$ 55,041	25%	\$217,406	\$ 167,081	\$ 50,325	30%
Professional services	16,529	10,382	6,147	59%	\$ 10,382	8,522	1,860	22%
Total revenues	\$ 288,976	\$227,788	\$ 61,188	27%	\$227,788	\$ 175,603	\$ 52,185	30%

	Year Ended December 31,		
	2019	2018	2017
Dollar-based net revenue retention rate*	110%	108%	112%
Number of customers*	3,024	2,631	2,208
Number of users*	267,621	222,619	196,612

*Exclusive of on-premise software

The increase in revenues for the year ended December 31, 2019, compared to the year ended December 31, 2018, was primarily due to an increase in the number of customers, an increase in the number of users added by existing customers, an increase in the number of products purchased by existing customers in the period, and an increase in non-user based strategic product sales. The total number of customers and users increased by 15% and 20%, respectively, during the year ended December 31, 2019.

The increase in revenues for the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to an increase in the number of customers, an increase in the number of users added by existing customers, an increase in the number of products purchased by existing customers in the period, and an increase in non-user based strategic product sales. The total number of customers and users increased by 19% and 13%, respectively, during the year ended December 31, 2018.

Cost of revenues

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2019	2018	\$	%	2018	2017	\$	%
	(in thousands, except percentages)							
Subscription and support	\$ 44,968	\$ 41,428	\$ 3,540	9%	\$ 41,428	\$ 33,530	\$ 7,898	24%
Professional services	14,007	9,446	4,561	48%	9,446	7,855	1,591	20%
Total cost of revenues	<u>\$ 58,975</u>	<u>\$ 50,874</u>	<u>\$ 8,101</u>	16%	<u>\$ 50,874</u>	<u>\$ 41,385</u>	<u>\$ 9,489</u>	23%
Gross margin	79.6%	77.7%			77.7%	76.4%		

The increase in cost of revenues for the year ended December 31, 2019, compared to the year ended December 31, 2018, was primarily due to a \$4.3 million increase in salaries, benefits, and stock-based compensation; a \$2.4 million increase in computer software expenses; a \$0.8 million increase in amortization of developed technology; a \$0.6 million increase in professional services expense; and a \$0.6 million increase in travel-related costs. These increases were partially offset by a \$1.0 million decrease in depreciation and amortization. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 24% increase in average cost of revenues-related headcount from the year ended December 31, 2018 to the year ended December 31, 2019. Computer software expenses increased due to expanded technology infrastructure to support sales growth. Amortization of our capitalized software development costs increased due to larger total capitalized costs as we expanded the functionality of our solutions. Travel-related costs increased due to increased customer implementations associated with customer growth. Depreciation and amortization expense decreased primarily due to a decrease of amortization relating to developed technology from the 2013 Acquisition, which became fully amortized in the quarter ended September 30, 2019.

The increase in cost of revenues for the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to a \$4.6 million increase in salaries, benefits, and stock-based compensation; a \$1.2 million increase in amortization of developed technology; a \$1.1 million increase in computer software expenses; a \$1.0 million increase in depreciation and amortization; a \$0.5 million increase in travel-related costs; a \$0.4 million increase in overhead-related expenses; a \$0.3 million increase in data center-related costs; and a \$0.3 million increase in professional services expense. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 13% increase in average cost of revenues-related headcount from the year ended December 31, 2017 to the year ended December 31, 2018. Amortization of our capitalized software development costs increased due to larger total capitalized costs as we expanded the functionality of our solutions. Computer software expenses increased due to expanded technology infrastructure to support sales growth. Depreciation and amortization expense increased due to an increase in capital expenditures related to improving customer application performance and to improve customer support levels. Travel-related costs increased due to increased customer implementations due to customer growth.

Sales and marketing

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2019	2018	\$	%	2018	2017	\$	%
	(in thousands, except percentages)							
Sales and marketing	\$ 158,837	\$ 128,808	\$ 30,029	23%	\$ 128,808	\$ 103,967	\$ 24,841	24%
Percentage of total revenues	55.0%	56.5%			56.5%	59.2%		

The increase in sales and marketing expenses for the year ended December 31, 2019, compared to the year ended December 31, 2018, was primarily due to a \$30.1 million increase in salaries, sales commissions, stock-based compensation, and incentives; a \$5.1 million increase in advertising and trade show expenses; a \$1.9 million increase in travel-related costs; a \$1.3 million increase in computer software expenses; and a \$0.6 million increase in professional services expense. These increases were partially offset by a \$9.7 million decrease in partner referral fees. The increase in salaries, sales commissions, and incentives was primarily driven by an increase in headcount and revenue growth. Our sales and marketing average headcount increased 19% from the year ended December 31, 2018 to the year ended December 31, 2019. The increase in advertising and trade shows was primarily due to an increase in our marketing efforts. Travel-related costs increased due to the expansion of our sales organization. Computer software expenses increased due to the additional software licenses driven by an increase in average sales and marketing headcount. The increase in professional services expense was primarily due to growth in our program spend and higher user conference-related expenses. The decrease in partner referral fees was primarily driven by the amendment of the previous SAP agreement in the fourth quarter of 2018 and the addition of SAP to our channel of resellers.

The increase in sales and marketing expenses for the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to a \$16.8 million increase in salaries, sales commissions, and incentives; a \$5.3 million increase in partner referral fees; a \$1.8 million increase in travel-related costs; a \$1.3 million increase in advertising and trade show expenses; a \$0.7 million increase in overhead-related expenses; a \$0.5 million increase in professional services expense; a \$0.4 million increase in computer software expenses; and a \$0.2 million increase in depreciation and amortization. These increases were partially offset by a \$2.1 million decrease in stock-based compensation, which was primarily related to modifications made to Australian stock option awards in the quarter ended September 30, 2017, which increased stock-based compensation for the year ended December 31, 2017. The increase in salaries, sales commissions, and incentives was primarily driven by an increase in headcount and revenue growth. Our sales and marketing average headcount increased 15% from the year ended December 31, 2017 to the year ended December 31, 2018. The increases in partner referral fees was primarily driven by the expansion of our relationships with technology vendors, including SAP. Travel-related costs increased due to the expansion of our sales organization. Overhead-related costs increased primarily due to the opening of new sales offices in Paris and Singapore in 2018. The increase in advertising and trade shows was primarily due to an increase in our marketing efforts. The increase in professional services expense was primarily due to growth in our program spend and higher user conference-related expenses.

Research and development

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2019	2018	\$	%	2018	2017	\$	%
	(in thousands, except percentages)							
Research and development, gross	\$ 48,269	\$ 36,505	\$ 11,764	32%	\$ 36,505	\$ 28,672	\$ 7,833	27%
Capitalized internally developed software costs	(5,263)	(5,751)	488	(8%)	(5,751)	(4,798)	(953)	20%
Research and development, net	\$ 43,006	\$ 30,754	\$ 12,252	40%	\$ 30,754	\$ 23,874	\$ 6,880	29%
Percentage of total revenues	14.9%	13.5%			13.5%	13.6%		

The increase in research and development expenses for the year ended December 31, 2019, compared to the year ended December 31, 2018, was primarily due to a \$9.0 million increase in salaries, benefits, and stock-based compensation; a \$1.9 million increase in professional services expense; and a \$0.5 million decrease in capitalized software costs, which resulted in an increase in net expenses. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 12% increase in average headcount from the year ended December 31, 2018 to the year ended December 31, 2019. The increase in professional services expense was primarily driven by the investment in products, features, and functionality buildouts by external consultants.

The increase in research and development expenses for the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to an \$8.1 million increase in salaries, benefits, and stock-based

compensation and a \$0.3 million increase in overhead-related expenses, partially offset by a \$1.0 million increase in capitalized software costs, which resulted in a decrease in expenses in the periods capitalized, and a \$0.6 million decrease in professional services expense. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 24% increase in average headcount from the year ended December 31, 2017 to the year ended December 31, 2018. The increase in capitalized software costs was primarily due to an increase in our headcount, as well as higher capitalization rates.

General and administrative

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2019	2018	\$	%	2018	2017	\$	%
	(in thousands, except percentages)							
General and administrative	\$ 56,057	\$ 47,188	\$ 8,869	19%	\$ 47,188	\$ 36,786	\$ 10,402	28%
Percentage of total revenues	19.4%	20.7%			20.7%	20.9%		

The increase in general and administrative expenses for the year ended December 31, 2019, compared to the year ended December 31, 2018, was primarily due to an \$8.0 million increase in salaries, benefits, and stock-based compensation and a \$1.8 million increase in professional services expense. These increases were partially offset by a \$0.8 million decrease in depreciation and amortization. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 20% increase in average headcount from the year ended December 31, 2018 to the year ended December 31, 2019. Depreciation and amortization expense decreased primarily due to a decrease in amortization relating to developed technology from the 2013 Acquisition, which became fully amortized in the quarter ended September 30, 2019.

The increase in general and administrative expenses for the year ended December 31, 2018, compared to the year ended December 31, 2017, was primarily due to an \$8.2 million increase in salaries, benefits, and stock-based compensation; a \$1.9 million increase in foreign currency losses; a \$0.9 million increase in overhead-related expenses; a \$0.4 million increase in travel-related costs; and a \$0.2 million increase in computer software expenses. These increases were partially offset by a \$0.6 million decrease in bad debt expense primarily related to older receivables for on-premise license receivables that were reserved for in 2017; a \$0.2 million decrease in depreciation and amortization; and a \$0.2 million decrease in contingent consideration expense related to the increase in fair value of the contingent consideration. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 27% increase in average headcount from the year ended December 31, 2017 to the year ended December 31, 2018. The increase in foreign currency losses was primarily due to the impact of foreign currency rates related to the Euro and British Pound during the year ended December 31, 2018, compared to the year ended December 31, 2017, on open intercompany balances denominated in foreign currencies. Overhead-related expenses increased primarily due to the expansion of our corporate headquarters in 2018.

Interest income

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2019	2018	\$	%	2018	2017	\$	%
	(in thousands, except percentages)							
Interest income	\$ 6,128	\$ 2,136	\$ 3,992	187%	\$ 2,136	\$ 1,069	\$ 1,067	100%

The increase in interest income during the year ended December 31, 2019, compared year ended December 31, 2018, was primarily due to interest earned on higher cash balances relating to the proceeds of the Notes, as well as an increase in average interest rates in the year ended December 31, 2019, compared to the year ended December 31, 2018.

The increase in interest income during the year ended December 31, 2018, compared year ended December 31, 2017, was primarily due to an increase in interest rates and, to a lesser extent, a higher average balance of investments in marketable securities in the year ended December 31, 2018, compared to the year ended December 31, 2017.

Interest expense

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2019	2018	\$	%	2018	2017	\$	%
	(in thousands, except percentages)							
Interest expense	\$ 8,650	\$ 4	\$ 8,646	*	\$ 4	\$ 13	\$ (9)	(69%)

* Not meaningful

Interest expense during the year ended December 31, 2019 was due to amortization of the debt discount on the Notes issued during the year and, to a lesser extent, interest accrued during the period on the outstanding balance on the Notes.

Interest expense was minimal during the year ended December 31, 2018.

Provision for income taxes

The amounts below reflect the revisions as discussed in Note 2, "Significant Accounting Policies".

	Year Ended December 31,		Change		Year Ended December 31,		Change	
	2019	2018	\$	%	2018	2017	\$	%
	(in thousands, except percentages)							
Provision for income taxes	\$ 1,725	\$ 1,072	\$ 653	61%	\$ 1,072	\$ 565	\$ 507	90%

We are subject to federal and state income taxes in the United States and taxes in foreign jurisdictions. For the year ended December 31, 2019, our annual estimated effective tax rate differed from the U.S. federal statutory rate of 21% primarily as a result of state taxes, foreign taxes, and changes in our valuation allowance for domestic income taxes. For the years ended December 31, 2019 and 2018, we recorded \$1.7 million and \$1.1 million in income tax expense, respectively. The increase in income tax expense for the year ended December 31, 2019, compared to the year ended December 31, 2018, was attributable to increased profitability in our international operations. For the year ended December 31, 2019, we continued to maintain a full valuation allowance on our U.S. federal and state net deferred tax assets as it was more likely than not that those deferred tax assets will not be realized.

We are subject to federal and state income taxes in the United States and taxes in foreign jurisdictions. For the year ended December 31, 2018, our annual estimated effective tax rate differed from the U.S. federal statutory rate of 21% primarily as a result of state taxes, foreign taxes, and changes in our valuation allowance for domestic income taxes. For the years ended December 31, 2018 and 2017, we recorded \$1.1 million and \$0.6 million in income tax expense, respectively. The increase in income tax expense for the year ended December 31, 2018, compared to the year ended December 31, 2017, was attributable to increased profitability in our international operations. For the year ended December 31, 2018, we continued to maintain a full valuation allowance on our U.S. federal and state net deferred tax assets as it was more likely than not that those deferred tax assets will not be realized.

Liquidity and Capital Resources

At December 31, 2019, our principal sources of liquidity was an aggregate of \$607.7 million of cash and cash equivalents and marketable securities, which primarily consist of short-term, investment-grade commercial paper, corporate bonds, and U.S. treasury securities. We had \$500.0 million aggregate principal amount of Notes outstanding at December 31, 2019. We have the ability to settle the Notes in cash, shares of our common stock, or a combination of cash and shares of our common stock at our own election. The Notes were not convertible at December 31, 2019.

In connection with the offering of the Notes, we entered into the Capped Calls with the counterparties covering, subject to anti-dilution adjustments, approximately 6.8 million shares of our common stock. If the Capped Calls are exercised and the market value per share of our common stock is greater than the strike price of \$73.40 of the Capped Calls but not greater than the cap price of \$106.76 for the Capped Calls, we expect to receive from the counterparties a number of shares of our common stock or, at our election (subject to certain conditions), cash, with an aggregate market value (or, in the case of cash settlement, in an amount) approximately equal to the product of such excess times the number of shares of our common stock relating to the Capped Calls being exercised. As a result, the Capped Calls are expected to offset the potential dilution as a result of conversion of the Notes unless we elect, at our option and subject to certain conditions specified under the Capped Calls, for the options to be settled in cash rather than shares of our common stock. If, however, the market value per share of our common stock, as measured under the terms of the Capped Calls at the time of exercise, exceeds the cap price of the Capped Calls, the number of shares of our common stock or the amount of cash we expect to receive upon the exercise of the Capped Calls will be capped at a number of shares of our common stock with an aggregate

market value approximately equal to (1) the excess of the cap price of the Capped Calls over the strike price of the Capped Calls times (2) the number of shares of our common stock relating to the Capped Calls (or the portions thereof) being exercised, and the dilution mitigation under the Capped Calls will be limited to such capped number of shares of our common stock we expect to receive. It is our current intent to settle conversions of the Notes through combination settlement, which involves repayment of the principal portion in cash and any excess of the conversion value over the principal amount in shares of our common stock.

We believe our existing cash and cash equivalents, investments in marketable securities and cash from operations will be sufficient to meet our working capital needs, capital expenditures and financing obligations for at least the next 12 months.

Our future capital requirements will depend on many factors, including our growth rate, the expansion of our direct sales force, strategic relationships and international operations, the timing and extent of spending to support research and development efforts and the continuing market acceptance of our solutions. We may require or opportunistically raise additional equity or debt financing. Sales of additional equity or equity-linked securities could result in dilution to our stockholders. If we raise funds by borrowing from third parties, the terms of those financing arrangements would require us to incur interest expense and may include negative covenants or other restrictions on our business that could impair our operating flexibility. We can provide no assurance that financing will be available at all or, if available, that we would be able to obtain financing on terms favorable to us. If we are unable to raise additional capital when needed, we would be required to curtail our operating activities and capital expenditures, and our business operating results and financial condition would be adversely affected.

Historical Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Year Ended December 31,		
	2019	2018	2017
	(in thousands)		
Net cash provided by operating activities	\$ 29,724	\$ 16,140	\$ 6,424
Net cash used in investing activities	\$ (408,450)	\$ (15,977)	\$ (7,031)
Net cash provided by financing activities	\$ 452,512	\$ 14,522	\$ 9,593

Net Cash Provided by Operating Activities

Our net loss and cash flows from operating activities are significantly influenced by our investments in headcount and infrastructure to support anticipated growth. In recent periods, our net loss has generally been significantly greater than our use of cash for operating activities due to our subscription-based revenue model in which billings occur in advance of revenue recognition, as well as the substantial amount of non-cash charges which we incur. Non-cash charges primarily include depreciation and amortization, stock-based compensation, non-cash lease expense, amortization of debt discount and issuance costs, and deferred taxes.

For the year ended December 31, 2019, cash provided by operations was \$29.7 million, resulting from net non-cash expenses of \$68.2 million, partially offset by our net loss of \$32.1 million and net cash flow used as a result of changes in operating assets and liabilities of \$6.3 million. The \$6.3 million of net cash flows used as a result of changes in our operating assets and liabilities reflected a \$28.0 million increase in accounts receivable; a \$16.4 million increase in other assets; and a \$5.5 million decrease in operating lease liabilities. These changes in our operating assets and liabilities were largely offset by a \$33.4 million increase in deferred revenue as a result of the growth of our customer and user base; a \$5.8 million increase in accrued expenses and other current liabilities primarily associated with increases in employee-related accruals as a result of increases in headcount and bonuses; a \$3.2 million increase accounts payable; and a \$1.2 million decrease in prepaid expenses and other current assets.

For the year ended December 31, 2018, cash provided by operations was \$16.1 million resulting from net non-cash expenses of \$43.3 million and net cash flow provided as a result of changes in operating assets and liabilities of \$1.6 million, largely offset by our net loss of \$28.8 million. The \$1.6 million of net cash flows provided as a result of changes in our operating assets and liabilities reflected a \$24.7 million increase in deferred revenue as a result of the growth of our customer and user base and a \$4.2 million increase in accrued expenses and other current liabilities primarily associated with increases in employee-related accruals as a result of increases in headcount and bonuses. This change in our operating assets and liabilities was largely offset by a \$13.2 million increase in accounts receivable; a \$9.5 million

increase in other assets; a \$4.0 million decrease in accounts payable; and a \$0.4 million increase in prepaid expenses and other current assets.

For the year ended December 31, 2017, cash provided by operations was \$6.4 million resulting from net non-cash expenses of \$40.8 million, largely offset by our net loss of \$33.4 million and net cash flow used as a result of changes in operating assets and liabilities of \$1.0 million. The \$1.0 million of net cash flows used as a result of changes in our operating assets and liabilities reflected a \$20.2 million increase in accounts receivable due to the growth of our customer and user base; a \$7.2 million increase in other assets; a \$2.0 million increase in prepaid expenses and other current assets; and a \$0.2 million decrease in other long-term liabilities. These changes in our operating assets and liabilities were partially offset by a \$26.5 million increase in deferred revenue as a result of the growth of our customer and user base, which are billed in advance of our revenue recognition, and a \$2.1 million increase in accrued expenses and other current liabilities primarily associated with increases in employee-related accruals as a result of increases in headcount and bonuses.

Net Cash Used In Investing Activities

Our investing activities consist primarily of investments in and maturities of marketable securities, capital expenditures for property and equipment and capitalized software development costs.

For the year ended December 31, 2019, cash used in investing activities was \$408.5 million as a result of \$398.8 million of purchases of marketable securities, net of proceeds from maturities and sales, \$5.1 million in capitalized software development costs, and \$4.6 million in purchases of property and equipment.

For the year ended December 31, 2018, cash used in investing activities was \$16.0 million as a result of \$6.3 million in purchases of property and equipment, \$5.7 million in capitalized software development costs, and \$4.0 million of purchases of marketable securities, net of proceeds from maturities and sales.

For the year ended December 31, 2017, cash used in investing activities was \$7.0 million as a result of \$4.6 million in capitalized software development costs and \$4.0 million in purchases of property and equipment, partially offset by \$1.6 million proceeds from maturities, net of purchases of marketable securities.

Net Cash Provided By Financing Activities

For the year ended December 31, 2019, cash provided by financing activities was \$452.5 million primarily as a result of net proceeds of \$441.0 million from the issuance of the Notes and the purchase of the associated Capped Calls; \$10.6 million of proceeds from exercises of stock options; and \$5.3 million of proceeds from the employee stock purchase plan, partially offset by \$3.9 million of acquisitions of common stock for tax withholding obligations.

For the year ended December 31, 2018, cash provided by financing activities was \$14.5 million primarily as a result of \$14.0 million of proceeds from the exercises of stock options and a \$4.3 million investment from our redeemable non-controlling interest, partially offset by \$3.4 million of acquisitions of common stock for tax withholding obligations and \$0.4 million of principal payments on capital lease obligations.

For the year ended December 31, 2017, cash provided by financing activities was \$9.6 million primarily as a result of \$10.3 million of proceeds from the exercises of stock options, partially offset by \$0.5 million of principal payments on capital lease obligations.

Backlog

We enter into both single and multi-year subscription contracts for our solutions. The timing of our invoices to the customer is a negotiated term and thus varies among our subscription contracts. For multi-year agreements, it is common to invoice an initial amount at contract signing followed by subsequent annual invoices. At any point in the contract term, there can be amounts that we have not yet been contractually able to invoice. Until such time as these amounts are invoiced, they are not recorded in revenues, deferred revenue or elsewhere in our consolidated financial statements and are considered by us to be backlog. At December 31, 2019 and 2018, we had backlog of approximately \$366.9 million and \$285.0 million, respectively. We expect backlog will change from period to period for several reasons, including the timing and duration of customer agreements, varying billing cycles of subscription agreements, and the timing and duration of customer renewals. Because revenue for any period is a function of revenue recognized from deferred revenue under contracts in existence at the beginning of the period, as well as contract renewals and new customer

contracts during the period, backlog at the beginning of any period is not necessarily indicative of future revenue performance. We do not utilize backlog as a key management metric internally.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations at December 31, 2019:

	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Purchase obligations	\$ 16,776	\$ 5,038	\$ 11,332	\$ 236	\$ 170

We are required to pay up to a maximum of \$8.0 million of contingent consideration relating to our 2013 Acquisition if we realize a tax benefit from the use of net operating losses generated from the stock option exercises concurrent with the 2013 Acquisition. We have not included this obligation in the table above because there is a high degree of uncertainty regarding the amount and timing of future cash flows to extinguish this liability. The settlement of this liability depends on our ability to generate taxable income in the future to realize this tax benefit.

At December 31, 2019, liabilities for unrecognized tax benefits of \$1.7 million were not included in the table above because, due to their nature, there was a high degree of uncertainty regarding the timing of future cash outflows and other events that extinguish these liabilities.

Commitments under letters of credit at December 31, 2019 were scheduled to expire as follows (in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	Thereafter
Letters of credit	\$ 284	\$ —	\$ —	\$ —	\$ 284

Letters of credit are maintained pursuant to certain of our lease arrangements. The letters of credit remain in effect at varying levels through the terms of the related agreements.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not have any relationships with other entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities that have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are therefore not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships.

In the ordinary course of business, we may provide indemnification of varying scope and terms to customers, vendors, investors, directors and officers with respect to certain matters, including, but not limited to, losses arising out of our breach of such agreements, services to be provided by us, or from intellectual property infringement claims made by third parties. These indemnification provisions may survive termination of the underlying agreement and the maximum potential amount of future payments we could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The maximum potential amount of future payments we could be required to make under these indemnification provisions is indeterminable. We have never paid a material claim, nor have we been sued in connection with these indemnification arrangements. At December 31, 2019, we had not accrued a liability for these indemnification arrangements because the likelihood of incurring a payment obligation, if any, in connection with these indemnification arrangements is not probable or reasonably estimable.

Critical Accounting Policies and Estimates

Our financial statements and the related notes included elsewhere in this Annual Report on Form 10-K are prepared in accordance with generally accepted accounting principles, or GAAP, in the United States. 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 and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that the following critical accounting policies involve a greater degree of judgment or complexity than our other accounting policies. Accordingly, these are the policies we believe are the most critical to a full understanding and evaluation of our consolidated financial condition and results of operations. See “Significant Accounting Policies” in Note 2 of the accompanying notes to our consolidated financial statements for additional information.

Revenue Recognition and Deferred Revenue

Assets recognized from the costs to obtain a contract with a customer – We recognize an asset for the incremental and recoverable costs of obtaining a contract with a customer if we expect the benefit of those costs to be one year or longer. We have determined that certain sales incentive programs to our employees (“deferred customer contract acquisition costs”) and our partners (“partner referral fees”) meet the requirements to be capitalized. Deferred customer acquisition costs related to new revenue contracts and upsells are deferred and then amortized straight line over the expected period of benefit that we have determined to be five years, based upon both the product turnover rate and estimated customer life. Partner referral fees are deferred and then amortized on a straight-line basis over the related contractual period, as the fees for renewals are commensurate with fees incurred for the initial contract. Deferred customer acquisition costs and partner referral fees are included within other assets and prepaid expenses and other current assets, respectively, on the consolidated balance sheets. There were no impairment losses in relation to the costs capitalized for the periods presented.

Capitalized Software Costs

We account for the costs of computer software obtained or developed for internal use in accordance with ASC 350, *Intangibles—Goodwill and Other* (“ASC 350”). We capitalize certain implementation costs incurred in a hosting arrangement that is a service contract. These capitalized costs exclude training costs, project management costs, and data migration costs. We capitalize certain costs in the development of our SaaS subscription solutions when (i) the preliminary project stage is completed, (ii) management has authorized further funding for the completion of the project and (iii) it is probable that the project will be completed and performed as intended. These capitalized costs include personnel and related expenses for employees and costs of third-party contractors who are directly associated with and who devote time to internal-use software projects and, when material, interest costs incurred during the development. Capitalization of these costs ceases once the project is substantially complete and the software is ready for its intended purpose. Costs incurred for significant upgrades and enhancements to our SaaS software solutions are also capitalized. Costs incurred for post-configuration training, maintenance and minor modifications or enhancements are expensed as incurred. Capitalized software development costs are amortized using the straight-line method over an estimated useful life of three years.

Recent Accounting Pronouncements

See Note 2, “Significant Accounting Policies—Recently Issued Accounting Standards,” of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on our financial condition, results of operations and cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business. These risks primarily include interest rate, foreign exchange and inflation risks, as well as risks relating to changes in the general economic conditions in the countries where we conduct business. To reduce these risks, we monitor the financial condition of our clients and limit credit exposure by collecting in advance and setting credit limits as we deem appropriate. In addition, our investment strategy has historically been to invest in financial instruments that are highly liquid and readily convertible into cash and that mature within three months from the date of purchase. To date, we have not used derivative instruments to mitigate the impact of our market risk exposures. We have also not used, nor do we intend to use, derivatives for trading or speculative purposes.

Interest Rate Risk

We are exposed to market risk related to changes in interest rates.

In August 2019, we issued \$500.0 million aggregate principal amount of 0.125% convertible senior notes due 2024. The Notes have a fixed annual interest rate of 0.125%; therefore, we do not have economic interest rate exposure on the

Notes. However, the fair value of the Notes is exposed to interest rate risk. Generally, the fair market value of the Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair values of the Notes are affected by our common stock price. The fair value of the Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines. Additionally, we carry the Notes at face value less unamortized discount and issuance costs on our balance sheet, and we present the fair value for required disclosure purposes only.

We had cash and cash equivalents and marketable securities of \$607.7 million at December 31, 2019. Our cash equivalents and marketable securities consist of highly liquid, investment-grade commercial paper, corporate bonds, and U.S. treasury bonds. The carrying amount of our cash equivalents and marketable securities reasonably approximates fair value due to the highly liquid nature of these instruments. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs and the fiduciary control of cash and investments. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to fluctuations in interest rates, which may affect our interest income and the fair market value of our investments. Due to the short-term nature of our investment portfolio, however, we do not believe an immediate 10% increase or decrease in interest rates would have a material effect on the fair market value of our portfolio. We therefore do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

We do not believe our cash equivalents and marketable securities have significant risk of default or illiquidity. While we believe our cash equivalents and marketable securities do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits. We cannot be assured that we will not experience losses on these deposits.

Foreign Currency Risk

While we primarily transact with customers in the U.S. Dollar, we also transact in foreign currencies, including the Euro, British Pound, Canadian Dollar, Australian Dollar, Singapore Dollar, Philippine Peso, South African Rand, Malaysian Ringgit, Romanian Leu, Hong Kong Dollar, Japanese Yen, and Polish Zloty, due to foreign operations and customer sales. We expect to continue to grow our foreign operations and customer sales. Our international subsidiaries maintain certain asset and liability balances that are denominated in currencies other than the functional currencies of these subsidiaries, which is the U.S. Dollar for all international subsidiaries, with the exception of BlackLine K.K., for which the Japanese Yen is the functional currency. Changes in the value of foreign currencies relative to the U.S. Dollar can result in fluctuations in our total assets, liabilities, revenue, operating expenses, and cash flows. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our cash and marketable securities at December 31, 2019.

As our international operations grow, our risks associated with fluctuation in currency rates will become greater, and we will continue to reassess our approach to managing this risk. In addition, currency fluctuations or a weakening U.S. Dollar can increase the costs of our international expansion. To date, we have not entered into any foreign currency hedging contracts, since exchange rate fluctuations have not had a material impact on our operating results and cash flows. Based on our current international structure, we do not plan on engaging in hedging activities in the near future.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. Nonetheless, if our 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, financial condition and results of operations.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	<u>PAGE</u>
Report of Independent Registered Public Accounting Firm	55
Consolidated Balance Sheets at December 31, 2019 and 2018	57
Consolidated Statements of Operations for the years ended December 31, 2019, 2018, and 2017	58
Consolidated Statements of Comprehensive Loss for the years ended December 31, 2019, 2018, and 2017	59
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018, and 2017	60
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017	61
Notes to Consolidated Financial Statements	63

Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of BlackLine, Inc. and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of operations, of comprehensive loss, of stockholders' equity and of cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 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, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

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 Annual 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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Convertible note transaction

As described in Note 9 to the consolidated financial statements, the Company issued convertible notes for aggregate gross proceeds of \$500 million in August 2019. The nature of the convertible note transaction required management to allocate the proceeds between the liability and equity components, with the equity component representing the difference between the proceeds and the fair value of a similar liability that does not have an associated conversion feature. To estimate the fair value of a similar liability that does not have an associated conversion feature, management discounted the contractual cash flows of the notes at an estimated interest rate for a comparable non-convertible note.

The principal considerations for our determination that performing procedures relating to the convertible note transaction is a critical audit matter are there was significant judgment by management in determining the fair value of the notes, which in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating audit evidence related to the estimated interest rate of a comparable non-convertible note, which is a significant assumption in determining the fair value of a similar note that does not have an associated conversion feature. The audit effort involved the use of professionals with specialized skill and knowledge to assist in performing procedures and evaluating the audit evidence obtained from these procedures.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's financing process, including controls over management's fair value determination. These procedures also included, among others, evaluating the methodology used by management to determine the fair value of a similar liability that does not have an associated conversion feature and evaluating management's selection of the interest rate of a comparable non-convertible note. Professionals with specialized skill and knowledge were used to assist in evaluating whether the interest rate of a comparable non-convertible note used by management was reasonable considering consistency with external market and industry data.

/s/ PricewaterhouseCoopers LLP
Los Angeles, California
February 27, 2020

We have served as the Company's auditor since 2014.

BLACKLINE, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except shares and par values)

	December 31, 2019	December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 120,232	\$ 46,181
Marketable securities	487,515	86,396
Accounts receivable, net of allowances for doubtful accounts of \$237 and \$46 at December 31, 2019 and 2018, respectively	102,829	74,902
Prepaid expenses and other current assets	12,830	14,042
Total current assets	723,406	221,521
Capitalized software development costs, net	10,032	9,023
Property and equipment, net	13,024	13,536
Intangible assets, net	17,520	27,785
Goodwill	185,138	185,138
Operating lease right-of-use assets	12,549	—
Other assets	52,883	36,478
Total assets	<u>\$ 1,014,552</u>	<u>\$ 493,481</u>
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST, AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 7,401	\$ 3,442
Accrued expenses and other current liabilities	30,098	24,479
Deferred revenue	162,552	129,074
Short-term portion of operating lease liabilities	4,938	—
Short-term portion of contingent consideration	2,008	2,008
Total current liabilities	206,997	159,003
Operating lease liabilities, noncurrent	10,606	—
Convertible senior notes, net	384,343	—
Contingent consideration	4,354	4,308
Deferred tax liabilities, net	4,571	3,257
Deferred revenue, noncurrent	163	277
Other long-term liabilities	—	2,982
Total liabilities	611,034	169,827
Commitments and contingencies (Note 14)		
Redeemable non-controlling interest (Note 4)	4,905	4,387
Stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares issued and outstanding at December 31, 2019 and 2018	—	—
Common stock, \$0.01 par value, 500,000,000 shares authorized, 55,930,994 issued and outstanding at December 31, 2019 and 54,682,647 issued and outstanding at December 31, 2018	559	547
Additional paid-in capital	561,275	451,571
Accumulated other comprehensive income	377	45
Accumulated deficit	(163,598)	(132,896)
Total stockholders' equity	398,613	319,267
Total liabilities, redeemable non-controlling interest, and stockholders' equity	<u>\$ 1,014,552</u>	<u>\$ 493,481</u>

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

BLACKLINE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year Ended December 31,		
	2019	2018	2017
Revenues			
Subscription and support	\$ 272,447	\$ 217,406	\$ 167,081
Professional services	16,529	10,382	8,522
Total revenues	<u>288,976</u>	<u>227,788</u>	<u>175,603</u>
Cost of revenues			
Subscription and support	44,968	41,428	33,530
Professional services	14,007	9,446	7,855
Total cost of revenues	<u>58,975</u>	<u>50,874</u>	<u>41,385</u>
Gross profit	<u>230,001</u>	<u>176,914</u>	<u>134,218</u>
Operating expenses			
Sales and marketing	158,837	128,808	103,967
Research and development	43,006	30,754	23,874
General and administrative	56,057	47,188	36,786
Total operating expenses	<u>257,900</u>	<u>206,750</u>	<u>164,627</u>
Loss from operations	<u>(27,899)</u>	<u>(29,836)</u>	<u>(30,409)</u>
Other income (expense)			
Interest income	6,128	2,136	1,069
Interest expense	(8,650)	(4)	(13)
Change in fair value of the common stock warrant liability	—	—	(3,490)
Other income (expense), net	<u>(2,522)</u>	<u>2,132</u>	<u>(2,434)</u>
Loss before income taxes	<u>(30,421)</u>	<u>(27,704)</u>	<u>(32,843)</u>
Provision for income taxes	1,725	1,072	565
Net loss	<u>(32,146)</u>	<u>(28,776)</u>	<u>(33,408)</u>
Net loss attributable to non-controlling interest (note 4)	(1,444)	(62)	—
Adjustment attributable to non-controlling interest (note 4)	1,833	—	—
Net loss attributable to BlackLine, Inc.	<u>\$ (32,535)</u>	<u>\$ (28,714)</u>	<u>\$ (33,408)</u>
Basic net loss per share attributable to BlackLine, Inc.	<u>\$ (0.59)</u>	<u>\$ (0.53)</u>	<u>\$ (0.64)</u>
Shares used to calculate basic net loss per share	<u>55,320</u>	<u>53,912</u>	<u>52,161</u>
Diluted net loss per share attributable to BlackLine, Inc.	<u>\$ (0.59)</u>	<u>\$ (0.53)</u>	<u>\$ (0.64)</u>
Shares used to calculate diluted net loss per share	<u>55,320</u>	<u>53,912</u>	<u>52,161</u>

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

BLACKLINE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Year Ended December 31,		
	2019	2018	2017
Net loss	\$ (32,146)	\$ (28,776)	\$ (33,408)
Other comprehensive income (loss):			
Net change in unrealized gains (losses) on marketable securities, net of tax of \$0 for the years ended December 31, 2019, 2018 and 2017	200	(26)	(22)
Foreign currency translation	261	266	—
Other comprehensive income (loss)	461	240	(22)
Comprehensive loss	(31,685)	(28,536)	(33,430)
Less comprehensive income (loss) attributable to redeemable non-controlling interest:			
Net loss attributable to redeemable non-controlling interest	(1,444)	(62)	—
Foreign currency translation attributable to redeemable non-controlling interest	129	132	—
Comprehensive loss attributable to redeemable non-controlling interest	(1,315)	70	—
Comprehensive loss attributable to BlackLine, Inc.	<u>\$ (30,370)</u>	<u>\$ (28,606)</u>	<u>\$ (33,430)</u>

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

BLACKLINE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
	Shares	Amount				
Balance at December 31, 2016	51,278	\$ 513	\$378,272	\$ (41)	\$ (70,702)	\$308,042
Adjustment for change in accounting policy for stock option forfeitures	—	—	72	—	(72)	—
Balance at January 1, 2017	51,278	513	378,344	(41)	(70,774)	308,042
Net exercise of stock warrants	428	4	14,866	—	—	14,870
Stock option exercises	1,277	13	10,239	—	—	10,252
Stock-based compensation	—	—	16,179	—	—	16,179
Other comprehensive loss	—	—	—	(22)	—	(22)
Net loss attributable to BlackLine, Inc.	—	—	—	—	(33,408)	(33,408)
Balance at December 31, 2017	52,983	530	419,628	(63)	(104,182)	315,913
Stock option exercises	1,698	17	13,987	—	—	14,004
Vesting of restricted stock units	2	—	—	—	—	—
Acquisition of common stock for tax withholding obligations	—	—	(3,356)	—	—	(3,356)
Stock-based compensation	—	—	21,312	—	—	21,312
Other comprehensive income	—	—	—	108	—	108
Net loss attributable to BlackLine, Inc.	—	—	—	—	(28,714)	(28,714)
Balance at December 31, 2018	54,683	547	451,571	45	(132,896)	319,267
Stock option exercises	691	5	10,561	—	—	10,566
Vesting of restricted stock units	406	5	—	—	—	5
Issuance of common stock through employee stock purchase plan	151	2	5,293	—	—	5,295
Acquisition of common stock for tax withholding obligations	—	—	(3,940)	—	—	(3,940)
Stock-based compensation	—	—	34,543	—	—	34,543
Other comprehensive income	—	—	—	332	—	332
Equity component of convertible senior notes, net of issuance costs	—	—	111,230	—	—	111,230
Purchase of capped calls	—	—	(46,150)	—	—	(46,150)
Net loss attributable to BlackLine, Inc., including adjustment to redeemable non-controlling interest	—	—	(1,833)	—	(30,702)	(32,535)
Balance at December 31, 2019	<u>55,931</u>	<u>\$ 559</u>	<u>\$561,275</u>	<u>\$ 377</u>	<u>\$ (163,598)</u>	<u>\$398,613</u>

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

BLACKLINE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities			
Net loss attributable to BlackLine, Inc.	\$ (32,535)	\$ (28,714)	\$ (33,408)
Net loss and adjustment attributable to redeemable non-controlling interest (Note 4)	389	(62)	—
Net loss	(32,146)	(28,776)	(33,408)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	21,274	22,336	19,971
Change in fair value of common stock warrant liability	—	—	3,490
Change in fair value of contingent consideration	46	450	628
Amortization of debt discount and issuance costs	8,410	—	—
Stock-based compensation	34,052	20,895	16,044
Noncash lease expense	5,013	—	—
(Accretion) amortization of purchase discounts/premiums on marketable securities, net	(2,161)	(928)	37
Net foreign currency losses	65	420	—
Deferred income taxes	1,314	213	85
Provision for (benefit from) doubtful accounts receivable	157	(84)	565
Changes in operating assets and liabilities:			
Accounts receivable	(27,962)	(13,207)	(20,189)
Prepaid expenses and other current assets	1,224	(449)	(2,035)
Other assets	(16,429)	(9,475)	(7,176)
Accounts payable	3,244	(4,008)	(25)
Accrued expenses and other current liabilities	5,789	4,191	2,120
Deferred revenue	33,364	24,699	26,504
Operating lease liabilities	(5,530)	—	—
Other long-term liabilities	—	(137)	(187)
Net cash provided by operating activities	29,724	16,140	6,424
Cash flows from investing activities			
Purchases of marketable securities	(565,675)	(122,530)	(76,610)
Proceeds from maturities of marketable securities	149,638	111,394	78,205
Proceeds from sales of marketable securities	17,279	7,118	—
Capitalized software development costs	(5,060)	(5,675)	(4,624)
Purchases of property and equipment	(4,632)	(6,284)	(4,002)
Net cash used in investing activities	(408,450)	(15,977)	(7,031)
Cash flows from financing activities			
Investment from redeemable non-controlling interest	—	4,317	—
Proceeds from issuance of convertible senior notes, net of issuance costs	487,163	—	—
Purchase of capped calls related to convertible senior notes	(46,150)	—	—
Proceeds from exercises of stock options	10,571	14,004	10,252
Proceeds from employee stock purchase plan	5,295	—	—
Acquisition of common stock for tax withholding obligations	(3,940)	(3,356)	—
Payments of initial public offering costs	—	—	(110)
Principal payments on capital lease obligations	—	(443)	(549)
Financed purchases of property and equipment	(427)	—	—
Net cash provided by financing activities	452,512	14,522	9,593
Effect of foreign currency exchange rate changes on cash, cash equivalents, and restricted cash	261	266	—
Net increase in cash, cash equivalents, and restricted cash	74,047	14,951	8,986
Cash, cash equivalents, and restricted cash, beginning of period	46,455	31,504	22,518
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 120,502</u>	<u>\$ 46,455</u>	<u>\$ 31,504</u>
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets			
Cash and cash equivalents at end of period	\$ 120,232	\$ 46,181	\$ 31,104
Restricted cash included within prepaid expenses and other current assets at end of period	20	—	400
Restricted cash included within other assets at end of period	250	274	—
Total cash, cash equivalents, and restricted cash at end of period shown in the consolidated statements of cash flows	<u>\$ 120,502</u>	<u>\$ 46,455</u>	<u>\$ 31,504</u>

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

BLACKLINE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
SUPPLEMENTAL CASH FLOW DISCLOSURE
(in thousands)

	Year Ended December 31,		
	2019	2018	2017
Supplemental disclosures of cash flow information			
Cash paid for interest	\$ —	\$ —	\$ 8
Cash paid for income taxes	\$ 1,007	\$ 591	\$ 868
Non-cash financing and investing activities			
Stock-based compensation capitalized for software development	\$ 491	\$ 417	\$ 135
Net exercise of stock warrants	\$ —	\$ —	\$ 14,870
Capitalized software development costs included in accounts payable and accrued expenses and other current liabilities at end of period	\$ 560	\$ 359	\$ 331
Purchases of property and equipment included in accounts payable and accrued expenses and other current liabilities at end of period	\$ 863	\$ 168	\$ 293
Leasehold improvements paid directly by landlord	\$ —	\$ —	\$ 1,176
Leased assets obtained in exchange for new operating lease liabilities	\$ 2,699	\$ —	\$ —

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

BLACKLINE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—The Company

BlackLine, Inc. and its subsidiaries (the “Company” or “BlackLine”) provide financial accounting close solutions delivered primarily as Software as a Service (“SaaS”). The Company’s solutions enable its customers to address various aspects of their financial close process including account reconciliations, variance analysis of account balances, journal entry capabilities, and certain types of data matching capabilities.

The Company is a holding company and conducts its operations through its wholly-owned subsidiary, BlackLine Systems, Inc. (“BlackLine Systems”). BlackLine Systems funded its business with investments from its founder and cash flows from operations until September 3, 2013, when the Company acquired BlackLine Systems, and Silver Lake Sumeru and Iconiq acquired a controlling interest in the Company, which is referred to as the “2013 Acquisition.”

On August 31, 2016 the Company acquired Runbook Company B.V. (“Runbook”), which is referred to as the “Runbook Acquisition.”

The Company is headquartered in Woodland Hills, California and has offices in the Netherlands, Canada, France, Singapore, the United Kingdom, Germany, Australia, Hong Kong, Romania, and Poland.

Note 2—Significant Accounting Policies

Principles of consolidation and basis of presentation

The Company’s consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the operating results of its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Revision of Previously-Issued Financial Statements

In connection with the preparation of its 2019 annual financial statements, the Company identified an error in its historical provision for income taxes, which resulted in an understatement of its tax provision and deferred tax liabilities in its previously-issued financial statements. The error resulted from the recognition of a foreign deferred tax asset that should not have been recognized for the difference in international entity income for statutory purposes and international entity income included on the consolidated income tax provision. There was no corresponding domestic benefit of this incremental foreign tax expense due to the U.S. entity being subject to a full valuation allowance.

The Company evaluated the effect of these errors on prior periods under the guidance of SEC Staff Accounting Bulletin (“SAB”) No. 99, *Materiality*, and determined the amounts were not material to previously-issued financial statements. The Company also evaluated the effect of correcting these errors through a cumulative adjustment to the financial statements and concluded, based on the guidance within SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, it was appropriate to revise the previously-issued financial statements to correct these errors. As a result, the Company has revised the accompanying 2018 and 2017 consolidated financial statements. All relevant footnotes have also been adjusted to reflect the impact of the revision for this tax error, as well as certain prior period immaterial disclosure errors. See also Note 19, “Unaudited Quarterly Data”, for the impact of such errors on the unaudited quarterly financial data.

The following tables present the effect of the revision for the financial statement line items adjusted in the affected periods, including the \$1.0 million adjustment to accumulated deficit at January 1, 2017 to correct for those tax errors that originated prior to 2017.

Consolidated Balance Sheet

	December 31, 2018		
	As Previously Reported	Adjustments	As Revised
	(in thousands)		
Other assets	\$ 36,865	\$ (387)	\$ 36,478
Total assets	\$ 493,868	\$ (387)	\$ 493,481
Accrued expenses and other current liabilities	\$ 24,705	\$ (226)	\$ 24,479
Total current liabilities	\$ 159,229	\$ (226)	\$ 159,003
Deferred tax liabilities, net	\$ 1,116	\$ 2,141	\$ 3,257
Total liabilities	\$ 167,912	\$ 1,915	\$ 169,827
Accumulated deficit	\$ (130,594)	\$ (2,302)	\$ (132,896)
Total stockholders' equity	\$ 321,569	\$ (2,302)	\$ 319,267
Total liabilities and stockholders' equity	\$ 493,868	\$ (387)	\$ 493,481

Consolidated Statements of Operations

	Year Ended December 31, 2018		
	As Previously Reported	Adjustments	As Revised
	(in thousands, except per share data)		
Provision for income taxes	\$ 162	\$ 910	\$ 1,072
Net loss	\$ (27,866)	\$ (910)	\$ (28,776)
Net loss attributable to BlackLine, Inc.	\$ (27,804)	\$ (910)	\$ (28,714)
Basic net loss per share attributable to BlackLine, Inc.	\$ (0.52)	\$ (0.01)	\$ (0.53)
Diluted net loss per share attributable to BlackLine, Inc.	\$ (0.52)	\$ (0.01)	\$ (0.53)

	Year Ended December 31, 2017		
	As Previously Reported	Adjustments	As Revised
	(in thousands, except per share data)		
Provision for income taxes	\$ 208	\$ 357	\$ 565
Net loss	\$ (33,051)	\$ (357)	\$ (33,408)
Net loss attributable to BlackLine, Inc.	\$ (33,051)	\$ (357)	\$ (33,408)
Basic net loss per share attributable to BlackLine, Inc.	\$ (0.63)	\$ (0.01)	\$ (0.64)
Diluted net loss per share attributable to BlackLine, Inc.	\$ (0.63)	\$ (0.01)	\$ (0.64)

Consolidated Statements of Comprehensive Loss

	Year Ended December 31, 2018		
	As Previously Reported	Adjustments	As Revised
	(in thousands)		
Net loss	\$ (27,866)	\$ (910)	\$ (28,776)
Comprehensive loss	\$ (27,626)	\$ (910)	\$ (28,536)
Comprehensive loss attributable to BlackLine, Inc.	\$ (27,696)	\$ (910)	\$ (28,606)

	Year Ended December 31, 2017		
	As Previously Reported	Adjustments	As Revised
	(in thousands)		
Net loss	\$ (33,051)	\$ (357)	\$ (33,408)
Comprehensive loss	\$ (33,073)	\$ (357)	\$ (33,430)
Comprehensive loss attributable to BlackLine, Inc.	\$ (33,073)	\$ (357)	\$ (33,430)

Consolidated Statements of Stockholders' Equity

	Year Ended December 31, 2018		
	As Previously Reported	Adjustments	As Revised
	(in thousands)		
Accumulated Deficit			
Balance at December 31, 2017	\$ (102,790)	\$ (1,392)	\$ (104,182)
Net loss attributable to BlackLine, Inc.	\$ (27,804)	\$ (910)	\$ (28,714)
Balance at December 31, 2018	\$ (130,594)	\$ (2,302)	\$ (132,896)
Total Equity			
Balance at December 31, 2017	\$ 317,305	\$ (1,392)	\$ 315,913
Net loss attributable to BlackLine, Inc.	\$ (27,804)	\$ (910)	\$ (28,714)
Balance at December 31, 2018	\$ 321,569	\$ (2,302)	\$ 319,267

	Year Ended December 31, 2017		
	As Previously Reported	Adjustments	As Revised
	(in thousands)		
Accumulated Deficit			
Balance at December 31, 2016	\$ (69,667)	\$ (1,035)	\$ (70,702)
Balance at January 1, 2017	\$ (69,739)	\$ (1,035)	\$ (70,774)
Net loss attributable to BlackLine, Inc.	\$ (33,051)	\$ (357)	\$ (33,408)
Balance at December 31, 2017	\$ (102,790)	\$ (1,392)	\$ (104,182)
Total Equity			
Balance at December 31, 2016	\$ 309,077	\$ (1,035)	\$ 308,042
Balance at January 1, 2017	\$ 309,077	\$ (1,035)	\$ 308,042
Net loss attributable to BlackLine, Inc.	\$ (33,051)	\$ (357)	\$ (33,408)
Balance at December 31, 2017	\$ 317,305	\$ (1,392)	\$ 315,913

Consolidated Statements of Cash Flows

	Year Ended December 31, 2018		
	As Previously Reported	Adjustments	As Revised
	(in thousands)		
Net loss attributable to BlackLine, Inc.	\$ (27,804)	\$ (910)	\$ (28,714)
Net loss	\$ (27,866)	\$ (910)	\$ (28,776)
Deferred income taxes	\$ (923)	\$ 1,136	\$ 213
Accrued expenses and other current liabilities	\$ 4,417	\$ (226)	\$ 4,191

	Year Ended December 31, 2017		
	As Previously Reported	Adjustments	As Revised
	(in thousands)		
Net loss attributable to BlackLine, Inc.	\$ (33,051)	\$ (357)	\$ (33,408)
Net loss	\$ (33,051)	\$ (357)	\$ (33,408)
Deferred income taxes	\$ (272)	\$ 357	\$ 85

Leases

On January 1, 2019, the Company adopted Accounting Standards Codification No. 842, *Leases*, on a modified retrospective basis.

Financial information related to periods prior to adoption are as originally reported under ASC 840, *Leases*. At January 1, 2019, the Company recorded operating lease right-of-use ("ROU") assets of \$14.9 million and operating lease liabilities of \$18.3 million. The difference between the leased assets and lease liabilities represents the existing deferred rent liabilities balance at adoption, resulting from historical straight-line recognition of operating leases, which was reclassified upon adoption to reduce the measurement of the leased assets. The adoption of the standard did not have an impact on the Company's stockholders' equity, results of operations, or cash flows.

The new standard provides several optional practical expedients in transition. The Company elected the package of three practical expedients permitted under the transition guidance, which eliminates the requirement to reassess whether a contract contains a lease and lease classification.

The Company has also made accounting policy elections, including a short-term lease exception policy, permitting the Company to not apply the recognition requirements of this standard to short-term leases (i.e. leases with expected terms of 12 months or less), and an accounting policy to account for lease and certain non-lease components as a single component for certain classes of assets. The portfolio approach, which allows a lessee to account for its leases at a portfolio level, was elected for certain equipment leases in which the difference in accounting for each asset separately would not have been materially different from accounting for the assets as a combined unit.

The Company has leases for office space, equipment, and data centers. The Company's leases have remaining initial lease terms of less than one year to approximately six years, some of which include options to extend the leases for up to ten years, and some of which include options to terminate the leases within one year.

The Company determines whether an arrangement is a lease, or contains a lease, at inception if the Company is both able to identify an asset and can conclude it has the right to control the identified asset for a period of time. Leases are included in operating lease ROU assets and operating lease liabilities on the Company's consolidated balance sheets. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheet.

ROU assets represent the Company's right to control an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company used its incremental borrowing rate based on the information available at commencement date in determining the discount rate used to present value lease payments. The Company used the incremental borrowing rate on January 1, 2019 for operating leases that commenced on or prior to that date. The Company uses the incremental borrowing rate at the commencement date, or remeasurement date, for operating leases. The incremental borrowing rate used is estimated based on what the Company would be required to pay for a collateralized loan over a similar term. Additionally, the Company used the portfolio approach when applying the discount rate selected based on the dollar amount and term of the obligation. The Company's leases typically do not include any residual value guarantees, bargain purchase options, or asset retirement obligations.

The Company's lease terms are only for periods in which it has enforceable rights. A lease is no longer enforceable when both the lessee and the lessor each have the right to terminate the lease without permission from the other party with no more than an insignificant penalty. The Company's lease terms are impacted by options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. The Company generally uses the base, non-cancelable lease term when determining the lease assets and liabilities.

The Company's agreements may contain variable lease payments. The Company includes variable lease payments that depend on an index or a rate and excludes those which depend on facts or circumstances occurring after the commencement date, other than the passage of time. Additionally, for certain equipment leases, the Company applies a portfolio approach to effectively account for the operating lease ROU assets and operating lease liabilities.

Judgment is required when determining whether any of the Company's data center contracts contain a lease. The Company concluded a lease exists when the asset is specifically identifiable, substantially all the economic benefit of the asset is obtained, and the right to direct the use of the asset exists during the term of the lease.

Redeemable non-controlling interest

The Company's Japanese subsidiary ("BlackLine K.K.") is not wholly owned. The agreements with the minority investors of BlackLine K.K. contain redemption features whereby the interest held by the minority investors are redeemable either (i) at the option of the minority investors or (ii) at the option of the Company, both beginning on the seventh anniversary of the initial capital contribution. If the interest of the minority investors were to be redeemed under these agreements, the Company would be required to redeem the interest based on a prescribed formula derived from the relative revenue of BlackLine K.K. and the Company. The balance of the redeemable non-controlling interest is reported at the greater of the initial carrying amount adjusted for the redeemable non-controlling interest's share of earnings or losses and other comprehensive income or loss, or its estimated redemption value. The resulting changes in the estimated redemption amount (increases or decreases) are recorded with corresponding adjustments against retained

earnings or, in the absence of retained earnings, additional paid-in-capital. These interests are presented on the consolidated balance sheets outside of equity under the caption "Redeemable non-controlling interest."

Convertible Senior Notes

The Company accounts for the issued Convertible Senior Notes (the "Notes") as separate liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component representing the difference between the proceeds and the fair value of a similar liability that does not have an associated convertible feature. This difference represents a debt discount that is amortized to interest expense over the term of the Notes using the effective interest rate method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The Company has allocated issuance costs incurred to the liability and equity components. Issuance costs attributable to the liability component are being amortized to expense over the respective term of the Notes, and issuance costs attributable to the equity components were netted with the respective equity component in additional paid-in capital.

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 and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period.

On an ongoing basis, management evaluates its estimates, primarily those related to determining the stand alone selling price ("SSP") for separate deliverables in the Company's subscription revenue arrangements, allowance for doubtful accounts, fair value of assets and liabilities assumed in a business combination, recoverability of goodwill and long-lived assets, useful lives associated with long-lived assets, income taxes, contingencies, fair value of contingent consideration, fair value of convertible senior notes, redemption value of redeemable non-controlling interest, and the valuation and assumptions underlying stock-based compensation and common stock warrants. These estimates are based on historical data and experience, as well as various other factors that management believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Segments

Management has determined that the Company has one operating segment. The Company's chief executive officer, who is the Company's chief operating decision maker, reviews financial information on a consolidated and aggregate basis, together with certain operating metrics principally to make decisions about how to allocate resources and to measure the Company's performance.

Cash and cash equivalents

The Company considers all highly liquid investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents. Cash includes cash held in checking and savings accounts. Cash equivalents are comprised of investments in money market mutual funds. The carrying value of cash and cash equivalents approximates fair value.

Restricted cash

Included in prepaid expenses and other current assets and other assets at December 31, 2019 and in other assets at December 31, 2018 was cash totaling \$0.3 million, the vast majority of which was required to be restricted as to use by the Company's office leaseholder to collateralize a standby letter of credit, the remainder was required to be restricted under the terms of the Company's corporate credit card program.

Investments in Marketable Securities

The Company's marketable securities consist of commercial paper, corporate bonds, and U.S. treasury securities. The Company classifies its marketable securities as available-for-sale at the time of purchase, and the Company reevaluates such classification at each balance sheet date. All marketable securities are recorded at their estimated fair value, with any unrealized gains and losses reported as a component of stockholders' equity until realized or until a determination is made that an other-than-temporary decline in market value has occurred. Impairments are considered to be other than temporary if they are related to deterioration in credit risk or if it is likely the Company will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value deemed to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net in the consolidated statements of operations.

The Company classifies its investments in marketable securities in current assets as the investments are available for use, if needed, in current operations.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the invoiced amount, do not require collateral and do not bear interest. The Company estimates its allowance for doubtful accounts by evaluating specific accounts where information indicates the Company's customers may have an inability to meet financial obligations, such as bankruptcy and significantly aged receivables outstanding.

Concentration of credit risk and significant customers

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist of cash and cash equivalents, investments in marketable securities and accounts receivable.

The Company maintains the majority of its cash balances with one major commercial bank in interest bearing accounts, which exceeds the Federal Deposit Insurance Corporation, or FDIC, federally insured limits.

The Company invests its excess cash in money market mutual funds, commercial paper, corporate bonds, and U.S. treasury securities. To date, the Company has not experienced any impairment losses on its investments.

For the years ended December 31, 2019, 2018, and 2017, no single customer comprised 10% or more of the Company's total revenues. No single customer had an accounts receivable balance of 10% or greater of total accounts receivable at December 31, 2019 or 2018.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is generally three to five years for machinery and equipment and purchased software and five years for furniture and fixtures. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or seven years. Expenditures for repairs and maintenance are expensed as incurred, while renewals and betterments are capitalized. Depreciation expense is charged to operations on a straight-line basis over the estimated useful lives of the assets.

Capitalized internal-use software costs

The Company accounts for the costs of computer software obtained or developed for internal use in accordance with ASC 350, *Intangibles—Goodwill and Other* ("ASC 350"). The Company capitalizes certain costs in the development of its Software as a Service ("SaaS") subscription solution when (i) the preliminary project stage is completed, (ii) management has authorized further funding for the completion of the project and (iii) it is probable that the project will be completed and performed as intended. These capitalized costs include personnel and related expenses for employees and costs of third-party contractors who are directly associated with and who devote time to internal-use software projects. Capitalization of these costs ceases once the project is substantially complete and the software is ready for its intended purpose. Costs incurred for significant upgrades and enhancements to the Company's SaaS software solutions are also capitalized. Costs incurred for training, maintenance and minor modifications or enhancements are expensed as incurred. Capitalized software development costs are amortized using the straight-line method over an estimated useful life of three years.

During the years ended December 31, 2019, 2018, and 2017, the Company amortized \$4.7 million, \$3.9 million, and \$2.7 million, respectively, of internal-use software development costs to subscription and support cost of revenues. At December 31, 2019 and 2018, the accumulated amortization of capitalized internal-use software development costs was \$14.3 million and \$9.5 million, respectively.

The Company capitalizes certain implementation costs incurred in a hosting arrangement that is a service contract. These capitalized costs exclude training costs, project management costs, and data migration costs. Capitalized software implementation costs are amortized using the straight-line method over the terms of the associated hosting arrangements.

Amortization of internal-use software implementation costs to subscription and support costs of revenues was not material for the year ended December 31, 2019. During the years ended December 31, 2018 and 2017, the Company had no amortization of internal-use software implementation costs.

Intangible assets

Intangible assets primarily consist of acquired developed technology, customer relationships, and trade names, which were acquired as part of the 2013 Acquisition and the Runbook Acquisition. The Company determines the appropriate useful life of its intangible assets by performing an analysis of expected cash flows of the acquired assets. Intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from one to ten years.

Impairment of long-lived assets

Management evaluates the recoverability of the Company's property and equipment, finite-lived intangible assets and capitalized internal-software costs when events or changes in circumstances indicate a potential impairment exists. Events and changes in circumstances considered by the Company in determining whether the carrying value of long-lived assets may not be recoverable include, but are not limited to, significant changes in performance relative to expected operating results, significant changes in the use of the assets, significant negative industry or economic trends, and changes in the Company's business strategy. Impairment testing is performed at an asset level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities (an "asset group"). In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of the asset group. If impairment is indicated based on a comparison of the assets' carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Company determined that there were no events or changes in circumstances that potentially indicated that the Company's long-lived assets were impaired during the years ended December 31, 2019, 2018, and 2017.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. The Company tests goodwill for impairment in accordance with the provisions of Accounting Standards Codification ("ASC") 350, *Intangibles—Goodwill and Other*. Goodwill is tested for impairment at least annually at the reporting unit level or whenever events or changes in circumstances indicate that goodwill might be impaired. Events or changes in circumstances which could trigger an impairment review include a significant adverse change in legal factors or in the business climate, unanticipated competition, loss of key personnel, significant changes in the use of the acquired assets or the Company's strategy, significant negative industry or economic trends, or significant underperformance relative to expected historical or projected future results of operations.

ASC 350 provides that an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination 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, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then additional impairment testing is not required. However, if an entity concludes otherwise, then it is required to perform the first of a two-step impairment test.

The first step involves comparing the estimated fair value of a reporting unit with its book value, including goodwill. If the estimated fair value exceeds book value, goodwill is considered not to be impaired and no additional steps are necessary. If, however, the fair value of the reporting unit is less than book value, then, under the second step, the carrying amount of the goodwill is compared with its implied fair value. The estimate of implied fair value of goodwill may

require valuations of certain internally-generated and unrecognized intangible assets. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

The Company has one reporting unit and it tests its goodwill for impairment annually, during the fourth quarter of the calendar year. At December 31, 2019 and 2018, the Company used the quantitative approach to perform its annual goodwill impairment test. The Company's fair value significantly exceeded the carrying value of its net assets and, accordingly, goodwill was not impaired.

Fair value of financial instruments

ASC 820, *Fair Value Measurement*, requires entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

- Level 1:** Quoted prices in active markets for identical or similar assets and liabilities.
- Level 2:** Quoted prices for identical or similar assets and liabilities in markets that are not active or observable inputs other than quoted prices in active markets for identical or similar assets or liabilities.
- Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At December 31, 2019 and 2018, the carrying values of cash equivalents, accounts receivable, accounts payable, and accrued expenses, approximate fair values due to the short-term nature of such instruments.

Contingent consideration relating to the 2013 Acquisition (see Note 13) is recorded as a liability and is measured at fair value each period, based on significant inputs not observable in the market, which represents a Level 3 measurement within the fair value hierarchy. The valuation of contingent consideration uses assumptions management believes would be made by a market participant. Management assesses these estimates on an ongoing basis as additional data impacting the assumptions becomes available. Changes in the fair value of contingent consideration related to updated assumptions and estimates are recognized within general and administrative expenses in the consolidated statements of operations. The Company determined the fair value of the contingent consideration by discounting estimated future taxable income. The significant inputs used in the fair value measurement of contingent consideration are the timing and amount of taxable income in any given period and determining an appropriate discount rate, which considers the risk associated with the forecasted taxable income. Significant changes in the estimated future taxable income and the periods in which they are generated would significantly impact the fair value of the contingent consideration liability.

Certain assets, including goodwill and long-lived assets, are also subject to measurement at fair value on a non-recurring basis if they are deemed to be impaired as a result of an impairment review. For the years ended December 31, 2019, 2018, and 2017, no impairments were identified on those assets required to be measured at fair value on a non-recurring basis.

Revenue recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters into contracts that can include various combinations of subscription and support services and professional services, which are generally capable of being distinct and accounted for as separate performance obligations. The Company's agreements do not contain any refund provisions other than in the event of the Company's non-performance or breach.

The Company determines revenue recognition through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

Subscription and support revenue – Customers pay subscription and support fees for access to the Company's SaaS platform generally for a one-year period. In more limited cases, customers may pay for up to three years in advance. Fees are based on a number of factors, including the solutions subscribed for by the customer and the number of users having access to the solutions. Subscription services, which allow customers to use hosted software over the contract period without taking possession of the software, are considered distinct performance obligations and are recognized ratably as the Company transfers control evenly over the contract period.

Subscription and support revenue also includes software and related maintenance and support fees on legacy BlackLine solutions and Runbook Company B.V. ("Runbook") software. Software licenses for legacy BlackLine solutions and Runbook software provide the customer with a right to use the software as it exists when made available to the customer. Customers may have purchased perpetual licenses or term based licenses, which provide customers with the same functionality and differ mainly in the duration over which the customer benefits from the software.

Software licenses are bundled with software maintenance and support, and the transaction price of the contract is allocated between the software licenses and the software maintenance and support. Maintenance and support convey rights to new software and upgrades released over the contract period and provide support, tools, and training to help customers deploy and use products more efficiently. Software licenses are considered distinct performance obligations and revenue is recognized at a point in time when control of the license has transferred and the license period commences. Maintenance and support are distinct performance obligations that are satisfied over time, and revenue is recognized ratably over the contract period as customers simultaneously consume and receive benefits.

Professional services revenue – Professional services consist of implementation and consulting services to assist the Company's customers as they deploy its solutions. These services are considered distinct performance obligations. Professional services do not result in significant customization of the subscription service. The Company applies the practical expedient to recognize professional services revenue when it has the right to invoice based on time and materials incurred.

Significant judgments – The Company's contracts with customers often include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Judgment is also required to determine the SSP for each distinct performance obligation. The Company typically has more than one SSP for its SaaS solutions and professional services. Additionally, management has determined that there are no third-party offerings reasonably comparable to the Company's solutions. Therefore, the Company determines the SSPs of subscriptions to the SaaS solutions and professional services based on numerous factors including the Company's overall pricing objectives, geography, customer size and number of users, and discounting practices. The Company uses historical maintenance renewal fees to estimate SSP for maintenance and support fees bundled with software licenses. The Company uses the residual method to estimate SSP of software licenses, because license pricing is highly variable and not sold separately from maintenance and support.

Contract balances – Timing of revenue recognition may differ from the timing of invoicing to customers. The Company records an unbilled receivable when revenue is recognized prior to invoicing, and deferred revenue when revenue is recognized subsequent to invoicing. The Company generally invoices customers annually at the beginning of each annual contract period. The Company records a receivable related to revenue recognized for multi-year agreements as it has an unconditional right to invoice and receive payment in the future related to those services.

Deferred revenue is comprised mainly of billings related to the Company's SaaS solutions in advance of revenue being recognized. Deferred revenue also includes payments for: professional services to be performed in the future; legacy BlackLine maintenance and support; Runbook maintenance, support, license, and implementation; and other

offerings for which the Company has been paid in advance and earns the revenue when the Company transfers control of the product or service.

Changes in deferred revenue for the years ended December 31, 2019, 2018, and 2017 were primarily due to additional billings in the periods, partially offset by revenue recognized of \$129.3 million, \$104.2 million, and \$78.2 million, respectively, that was previously included in the deferred revenue balance at December 31, 2018, 2017, and 2016, respectively.

The transaction price is generally determined by the stated fixed fees in the contract, excluding any related sales taxes. Transaction price allocated to remaining performance obligations represents contracted revenue that has not yet been recognized ("contracted not recognized"), which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. Contracted not recognized revenue was \$366.9 million at December 31, 2019, of which the Company expects to recognize approximately 60% over the next 12 months and the remainder thereafter.

Fees are generally due and payable upon receipt of invoice or within 30 days. None of the Company's contracts include a significant financing component.

Assets recognized from the costs to obtain a contract with a customer – The Company recognizes an asset for the incremental and recoverable costs of obtaining a contract with a customer if the Company expects the benefit of those costs to be one year or longer. The Company has determined that certain sales incentive programs to the Company's employees ("deferred customer contract acquisition costs") and its partners ("partner referral fees") meet the requirements to be capitalized. Deferred customer acquisition costs related to new revenue contracts and upsells are deferred and then amortized on a straight-line basis over the expected period of benefit, which the Company has determined to be five years, based upon both the product turnover rate and estimated customer life. Partner referral fees are deferred and then amortized on a straight-line basis over the related contractual period, as the fees for renewals are commensurate with fees incurred for the initial contract. Deferred customer acquisition costs and partner referral fees are included within other assets and prepaid expenses and other current assets, respectively, on the consolidated balance sheets. There were no impairment losses in relation to the costs capitalized for the periods presented.

Amortization expense related to the asset recognized from the costs to obtain a contract with a customer is included in sales and marketing expenses in the consolidated statements of operations and was \$18.1 million, \$23.6 million, and \$15.6 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Cost of revenues

Cost of revenues primarily consists of costs related to hosting the Company's cloud-based application suite, salaries and benefits of operations and support personnel, including stock-based compensation, and amortization of capitalized internal-use software costs. The Company allocates a portion of overhead, such as rent, information technology costs and depreciation and amortization to cost of revenues. Costs associated with providing professional services are expensed as incurred when the services are performed. In addition, subscription and support cost of revenues includes amortization of acquired developed technology.

Sales and marketing

Sales and marketing expenses consist primarily of compensation and employee benefits, including stock-based compensation, of sales and marketing personnel and related sales support teams, sales and partner commissions, marketing events, advertising costs, travel, trade shows, other marketing materials, and allocated overhead. Sales and marketing expenses also include amortization of customer relationship intangible assets. Advertising costs are expensed as incurred and totaled \$10.9 million, \$8.0 million, and \$7.7 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Research and development

Research and development expenses are comprised primarily of salaries, benefits and stock-based compensation associated with the Company's engineering, product and quality assurance personnel. Research and development expenses also include third-party contractors and supplies and allocated overhead. Other than software development costs that qualify for capitalization, as discussed above, research and development costs are expensed as incurred.

General and administrative

General and administrative expenses consist primarily of personnel costs associated with the Company's executive, finance, legal, human resources, compliance, and other administrative personnel, as well as accounting and legal professional services fees, other corporate-related expenses and allocated overhead. General and administrative expenses also include amortization of covenant not to compete and tradename intangible assets, the change in value of the contingent consideration, legal settlement gains, costs associated with the secondary offering, and costs associated with the shelf offerings.

Stock-based compensation

The Company accounts for stock-based compensation awards granted to employees and directors based on the awards' estimated grant date fair value. The Company estimates the fair value of its stock options using the Black-Scholes option-pricing model. For awards that vest solely based on continued service ("service-only vesting conditions"), the resulting fair value is recognized on a straight-line basis over the period during which an employee is required to provide service in exchange for the award, usually the vesting period, which is generally four years. The Company recognizes the fair value of stock options which contain performance conditions based upon the probability of the performance conditions being met, using the graded vesting method. On January 1, 2017, the Company changed its accounting policy to account for forfeitures when they occur rather than estimate a forfeiture rate.

Determining the grant date fair value of options using the Black-Scholes option-pricing model requires management to make assumptions and judgments. These estimates involve inherent uncertainties and, if different assumptions had been used, stock-based compensation expense could have been materially different from the amounts recorded.

The assumptions and estimates are as follows:

Value per share of the Company's common stock. The fair value of the underlying common stock was determined by the Company's board of directors through the date of the initial public offering. For awards granted subsequent to the Company's initial public offering, the fair value of common stock is based on the closing price of the Company's common stock, as reported on the NASDAQ, on the date of grant.

Expected volatility. The Company determines the expected volatility based on historical average volatilities of similar publicly-traded companies corresponding to the expected term of the awards. The Company determines expected volatility for the Employee Stock Purchase Plan ("ESPP") based on the historical volatility of its common stock.

Expected term. The Company determines the expected term of awards which contain service-only vesting conditions using the simplified approach, in which the expected term of an award is presumed to be the mid-point between the vesting date and the expiration date of the award, as the Company does not have sufficient historical data relating to stock option exercises. The expected term for the Company's ESPP represents the amount of time remaining in the 12-month offering period.

Risk-free interest rate. The risk-free interest rate is based on the United States Treasury yield curve in effect during the period the options were granted corresponding to the expected term of the awards.

Estimated dividend yield. The estimated dividend yield is zero, as the Company does not currently intend to declare dividends in the foreseeable future.

The following information represents the weighted average of the assumptions used in the Black-Scholes option-pricing model for stock options granted:

	Year Ended December 31,		
	2019	2018	2017
Expected term (years)	6.1	6.1	6.2
Expected volatility	46.7%	46.0%	47.0%
Risk free interest rate	2.2%	2.8%	2.1%
Expected dividend yield	—	—	—

Income taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. ASC 740 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the consolidated statements of operations in the period that includes the enactment date. A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized. The Company recognizes interest and penalties accrued with respect to uncertain tax positions, if any, in the provision for income taxes in the consolidated statements of operations.

Net loss per share

Basic and diluted loss per share is calculated by dividing net loss attributable to BlackLine, Inc. by the weighted average number of shares of common stock outstanding. As the Company has net losses for the periods presented, all potentially dilutive common stock, which are comprised of stock options and restricted stock units, are antidilutive.

Foreign currency

The Company's functional currency for its foreign subsidiaries is the U.S. Dollar ("USD"), with the exception of its BlackLine K.K. subsidiary, for which the Japanese Yen is the functional currency. The foreign exchange impacts of remeasuring the local currency of the foreign subsidiaries to the functional currency is recorded in general and administrative expenses in the Company's consolidated statements of operations. Monetary assets and liabilities of foreign operations are remeasured at balance sheet date exchange rates, non-monetary assets and liabilities and equity are remeasured at the historical exchange rates, while results of operations are remeasured at average exchange rates in effect for the period. Foreign currency transaction gains (losses) totaled \$(0.5) million, \$(0.1) million, and \$0.6 million for the years ended December 31, 2019, 2018, and 2017, respectively. The financial statements of BlackLine K.K. are translated to USD using balance sheet date exchange rates for monetary assets and liabilities, historical rates of exchange for non-monetary assets and liabilities and equity, and average exchange rates in the period for revenues and expenses. Translation gains and losses are recorded in accumulated other comprehensive income (loss) as a component of stockholders' equity in the consolidated balance sheets.

Recent accounting pronouncements

Recently issued accounting pronouncements not yet adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued guidance which requires that financial assets measured at amortized cost be presented at the net amount expected to be collected. This guidance amends the accounting for credit losses for available-for-sale securities and purchased financial assets with credit deterioration. This guidance is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted for any interim or annual period after December 15, 2018. The Company does not expect the adoption of this Accounting Standard Update ("ASU") to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued guidance which modifies the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in FASB Concepts Statement, *Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*, including the consideration of costs and benefits. The guidance will be effective for the Company for annual reporting periods, and interim periods within those years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

Recently adopted accounting pronouncements

In August 2018, the FASB issued guidance which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset. The guidance will be effective for the Company for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. The Company adopted this guidance on a prospective basis effective April 1, 2019.

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The Company adopted this guidance effective January 1, 2019.

In February 2018, the FASB issued an ASU that provides companies with an option to reclassify stranded tax effects resulting from enactment of the Tax Cuts and Jobs Act (the "Tax Act") from accumulated other comprehensive income to retained earnings. The Company adopted this guidance effective January 1, 2019, and the adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In June 2018, the FASB issued guidance which expands the scope of Accounting Standards Codification Topic 718, *Compensation—Stock Compensation*, to include share-based payments granted to non-employees in exchange for goods or services. The fair value of awards granted to non-employees will be determined as of the grant date, which will be recognized over the service period. Previous guidance required the awards to be remeasured at fair value periodically when determining the related expense. The Company adopted this guidance effective January 1, 2019, and the adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740), *Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and clarifies and amends existing guidance to improve consistent application. ASU 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. ASU 2019-12 is effective for us in the first quarter of fiscal 2022. The Company early adopted this guidance effective January 1, 2019, and the adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Note 3—Revenues

The Company disaggregates its revenue from contracts with customers by geographic location, as it believes it best depicts how the nature, amount, timing, and uncertainty of its revenues and cash flows are affected by economic factors.

The following table sets forth the Company's revenues by geographic region (in thousands):

	Year Ended December 31,		
	2019	2018	2017
United States	\$ 223,375	\$ 180,152	\$ 141,499
International	65,601	47,636	34,104
	<u>\$ 288,976</u>	<u>\$ 227,788</u>	<u>\$ 175,603</u>

No countries outside the United States represented 10% or more of total revenues.

Note 4—Redeemable Non-Controlling Interest

In September 2018, the Company entered into an agreement with Japanese Cloud Computing and M30 LLC (the "Investors") to engage in the investment, organization, management, and operation of a Japanese subsidiary ("BlackLine K.K.") of the Company that is focused on the sale of the Company's products in Japan. In October 2018, the Company

initially contributed approximately \$4.5 million in cash in exchange for 51% of the outstanding common stock of BlackLine K.K. As the Company controls a majority stake in BlackLine K.K., the entity has been consolidated.

All of the common stock held by the Investors is callable by the Company or puttable by the Investors upon certain contingent events. Should the call or put option be exercised, the redemption value will be determined based upon a prescribed formula derived from the discrete revenues of BlackLine K.K. and the Company and may be settled, at the Company's discretion, with Company stock or cash. As a result of the put right available to the Investors in the future, the redeemable non-controlling interest in BlackLine K.K. are classified outside of permanent equity in the Company's consolidated balance sheet, and the balance is reported at the greater of the initial carrying amount adjusted for the redeemable non-controlling interest's share of earnings, or its estimated redemption value. The resulting changes in the estimated redemption amount are recorded within retained earnings or, in the absence of retained earnings, additional paid-in-capital. The estimated redemption value of the call/put option embedded in the redeemable non-controlling interest was \$1.8 million at December 31, 2019.

The following table summarizes the activity in the redeemable non-controlling interest for the periods indicated below:

	December 31,	
	2019	2018
Balance at beginning of period	\$ 4,387	\$ —
Investment by redeemable non-controlling interest	—	4,317
Net loss attributable to redeemable non-controlling interest (excluding adjustment to non-controlling interest)	(1,444)	(62)
Foreign currency translation	129	132
Adjustment to redeemable non-controlling interest	1,833	—
Balance at end of period	<u>\$ 4,905</u>	<u>\$ 4,387</u>

Note 5—Balance Sheet Components

Investments in Marketable Securities

Investments in marketable securities presented within current assets on the consolidated balance sheet consisted of the following:

	December 31, 2019			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Marketable securities				
U.S. treasury securities	\$ 382,269	\$ 67	\$ (1)	\$ 382,335
Corporate bonds	77,009	63	(18)	77,054
Commercial paper	28,126	—	—	28,126
	<u>\$ 487,404</u>	<u>\$ 130</u>	<u>\$ (19)</u>	<u>\$ 487,515</u>

	December 31, 2018			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
	(in thousands)			
Marketable securities				
U.S. treasury securities	\$ 25,856	\$ —	\$ (29)	\$ 25,827
Corporate bonds	32,030	—	(60)	31,970
Commercial paper	28,599	—	—	28,599
	<u>\$ 86,485</u>	<u>\$ —</u>	<u>\$ (89)</u>	<u>\$ 86,396</u>

During the years ended December 31, 2019, 2018, and 2017 there were no material realized gains or losses related to sales of marketable securities recognized in the Company's consolidated statements of operations. Net gains and

losses related to maturities of marketable securities that were reclassified from accumulated other comprehensive loss to earnings, and included in general and administrative expenses, in the consolidated statements of operations were \$2.0 million and \$1.0 million for the years ended December 31, 2019 and 2018, respectively. Net gains and losses related to maturities of marketable securities that were reclassified from accumulated other comprehensive loss to earnings, and included in general and administrative expenses, in the consolidated statements of operations were not material for the year ended December 31, 2017.

The Company's marketable securities have a contractual maturity of less than two years. The amortized cost and fair values of marketable securities, by remaining contractual maturity, were as follows:

	December 31, 2019	
	Amortized Cost	Fair Value
	(in thousands)	
Maturing within 1 year	\$ 473,221	\$ 473,321
Maturing between 1 and 2 years	14,183	14,194
	<u>\$ 487,404</u>	<u>\$ 487,515</u>

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

	December 31,	
	2019	2018
Partner referral fees	\$ 833	\$ 5,219
Other prepaid expenses and other current assets	11,997	8,823
	<u>\$ 12,830</u>	<u>\$ 14,042</u>

Other Assets

Other assets consisted of the following (in thousands):

	December 31,	
	2019	2018
Deferred customer contract acquisition costs	\$ 49,709	\$ 34,172
Restricted cash	250	274
Capitalized software implementation costs	1,237	—
Other assets	1,687	2,032
	<u>\$ 52,883</u>	<u>\$ 36,478</u>

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	December 31,	
	2019	2018
Accrued salaries and employee benefits	\$ 20,775	\$ 17,054
Accrued income and other taxes payable	4,198	4,321
Short-term tenant improvement allowance	—	475
Other accrued expenses and current liabilities	5,125	2,629
	<u>\$ 30,098</u>	<u>\$ 24,479</u>

Note 6—Leases

The following table sets forth the Company's lease expense (in thousands):

	Year Ended December 31, 2019
Operating lease cost	\$ 5,957
Short-term lease cost	875
Variable cost	630
Total lease cost	<u>\$ 7,462</u>

Supplemental information related to the Company's leases was as follows (in thousands, except percentages):

	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities - operating leases	\$ 6,613
	<u>At December 31, 2019</u>
Weighted-average remaining lease term - operating leases (in years)	4.2
Weighted-average discount rate - outstanding operating leases	6%

Maturities of lease liabilities at December 31, 2019 was (in thousands):

2020	\$ 5,674
2021	4,131
2022	3,067
2023	2,906
2024	473
Thereafter	1,191
Total lease payments	<u>17,442</u>
Less imputed interest	<u>(1,898)</u>
Total	<u>\$ 15,544</u>

At December 31, 2019, there were no leases entered into that had not yet commenced.

Future minimum lease payments under non-cancelable operating leases at December 31, 2018 was (in thousands):

2019	\$ 7,059
2020	5,307
2021	3,786
2022	2,586
2023	2,638
Thereafter	237
Total	<u>\$ 21,613</u>

Note 7—Fair Value Measurements

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis by level, within the fair value hierarchy. Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	\$ 39,767	\$ —	\$ —	\$ 39,767
Marketable securities				
U.S. treasury securities	382,335	—	—	382,335
Corporate bonds	—	77,054	—	77,054
Commercial paper	—	28,126	—	28,126
Total assets	\$ 422,102	\$ 105,180	\$ —	\$ 527,282
Liabilities				
Contingent consideration	\$ —	\$ —	\$ 6,362	\$ 6,362
Total liabilities	\$ —	\$ —	\$ 6,362	\$ 6,362

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	\$ 32,021	\$ —	\$ —	\$ 32,021
Marketable securities				
U.S. treasury securities	25,827	—	—	25,827
Corporate bonds	—	31,970	—	31,970
Commercial paper	—	28,599	—	28,599
Total assets	\$ 57,848	\$ 60,569	\$ —	\$ 118,417
Liabilities				
Contingent consideration	\$ —	\$ —	\$ 6,316	\$ 6,316
Total liabilities	\$ —	\$ —	\$ 6,316	\$ 6,316

The following table summarizes the changes in the contingent consideration liability (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Beginning fair value	\$ 6,316	\$ 5,866	\$ 5,238
Change in fair value	46	450	628
Ending fair value	\$ 6,362	\$ 6,316	\$ 5,866

Note 8—Property and Equipment

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

	December 31,	
	2019	2018
Computers and equipment	\$ 10,547	\$ 6,598
Purchased software	7,745	7,356
Furniture and fixtures	2,606	2,571
Leasehold improvements	10,134	10,077
Construction in progress	528	—
	31,560	26,602
Less: accumulated depreciation and amortization	(18,536)	(13,066)
	\$ 13,024	\$ 13,536

Depreciation and amortization expense related to property and equipment was \$6.3 million, \$5.4 million, and \$4.0 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Note 9—Convertible Senior Notes

On August 13, 2019, the Company issued 0.125% Convertible Senior Notes due in 2024 for aggregate gross proceeds of \$500.0 million, which includes the initial purchasers' option of \$65.0 million, in a private placement in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"). The initial resale of the Notes by the initial purchasers to qualified institutional buyers was exempt from registration pursuant to Rule 144A under the Securities Act. The Notes were issued pursuant to an Indenture (the "Indenture") between the Company and U.S. Bank National Association, as trustee (the "Trustee").

Interest on the Notes is payable semi-annually in cash at a rate of 0.125% per annum on February 1 and August 1 of each year, beginning on February 1, 2020. The Notes mature on August 1, 2024 unless redeemed, repurchased or converted prior to such date in accordance with their terms.

Prior to the close of business on the business day immediately preceding May 1, 2024, the Notes will be convertible only under the following circumstances:

(1) during any calendar quarter commencing after the calendar quarter ending on December 31, 2019, and only during such calendar quarter, if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the Notes on each applicable trading day;

(2) during the five business-day period after any five consecutive trading-day 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 common stock and the conversion rate on each such trading day;

(3) if the Company calls any or all of the Notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or

(4) upon the occurrence of specified corporate events set forth in the Indenture.

On or after May 1, 2024, until the close of business on the second scheduled trading day immediately preceding the maturity date of the Notes, holders of the Notes, at their option, may convert all or any portion of their Notes regardless of the foregoing conditions.

The Notes have an initial conversion rate of 13.6244 shares of common stock per \$1,000 principal amount of Notes, equivalent to an initial conversion price of approximately \$73.40 per share of common stock. The conversion rate is subject to adjustment for certain events. Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of its common stock or a combination of cash and shares of its common stock, at its election. It is the Company's current intent to settle conversions of the Notes through "combination settlement", which involves repayment of the principal portion in cash and any excess of the conversion value over the principal amount in shares of its common stock.

If the Company undergoes a fundamental change, as described in the Indenture, prior to the maturity date of the Notes, holders of the Notes may require the Company to repurchase all or a portion of the Notes for cash at a price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Notes are the Company's senior unsecured obligations and will rank senior in right of payment to any of the Company's indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of the Company's unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of current or future subsidiaries of the Company.

The Indenture contains customary events of default with respect to the Notes and provides that upon certain events of default occurring and continuing, the Trustee may, and the Trustee at the request of holders of at least 25% in principal amount of the Notes shall, declare all principal and accrued and unpaid interest, if any, of the Notes to be due and payable. In case of certain events of bankruptcy, insolvency or reorganization, involving the Company, all of the principal of, and accrued and unpaid interest on the Notes will automatically become due and payable.

In accounting for the issuance of the Notes, the Company allocated the proceeds of the Notes between liability and equity components, with the equity component representing the difference between the proceeds and the fair value of a similar liability that does not have an associated convertible feature. To estimate the fair value of a similar liability that does not have an associated conversion feature, the Company discounted the contractual cash flows of the Notes at an estimated interest rate for a comparable nonconvertible note. The Company applied judgment to determine the interest rate, which was estimated based on the credit spread implied by the Notes issuance and based on the credit spread implied by the J.P. Morgan Yield Index based on estimates of its credit rating. The significant assumptions used in these models were the expected volatility over the term of the Notes and an estimate of the Company's credit rating. The difference between the principal amount of the Notes and the liability component of \$114.2 million was recorded as a debt discount. In addition, the Company incurred \$12.8 million of transaction costs related to the Notes of which \$9.9 million and \$2.9 million, respectively, was allocated to the liability and equity components of the Notes. Transaction costs allocated to the liability component was recorded as additional debt discount. The equity component of the Notes will not be remeasured as long as it continues to meet the conditions for equity classification. The debt discount is amortized to interest expense over the term of the Notes using the effective interest method.

The Notes consisted of the following (in thousands):

	December 31, 2019
Liability:	
Principal	\$ 500,000
Unamortized debt discount and issuance costs	(115,657)
Net carrying amount	\$ 384,343
Carrying amount of the equity component	<u>\$ 111,230</u>

The effective interest rate of the liability component of the Notes, excluding the conversion option, is 6.06%.

The Company carries the Notes at face value less unamortized discount and issuance costs on its consolidated balance sheet and presents the fair value for disclosure purposes only. The estimated fair value of the Notes, based on a market approach at December 31, 2019 was approximately \$505.0 million, which represents a Level 2 valuation. The estimated fair value was determined based on the actual bids and offers of the Notes in an over-the-counter market on the last trading day of the period.

During the year ended December 31, 2019, the Company recognized \$8.4 million of interest expense related to the amortization of debt discount and issuance costs and \$0.2 million of coupon interest expense.

At December 31, 2019, the remaining life of the Notes is approximately 55 months.

The Notes were not convertible at December 31, 2019.

Capped Calls

In conjunction with the issuance of the Notes, the Company entered into capped call transactions (the "Capped Calls") with a certain counterparty affiliated with the Initial Purchasers and others at a cost of approximately \$46.2 million, which was recorded as a reduction of the Company's additional paid-in capital in the accompanying consolidated financial statements.

Under the Capped Calls, the Company purchased capped call options that in the aggregate relate to the total number of shares of the Company's common stock, with an exercise price equal to the initial conversion price of each of the Notes, and a cap price of \$106.76 per share of common stock, subject to certain adjustments under the terms of the Capped Calls.

By entering into the Capped Calls, the Company expects to reduce the potential dilution to its common stock (or, in the event a conversion of the Notes is settled in cash, to reduce its cash payment obligation) in the event that at the time of conversion of the Notes its common stock price exceeds the conversion price of the Notes.

The cost of the Capped Calls is not expected to be tax deductible as the Company did not elect to integrate the Capped Calls into the Notes for tax purposes.

Note 10—Intangible Assets and Goodwill

The carrying value of intangible assets was as follows (in thousands):

	December 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade name	\$ 15,977	\$ (10,124)	\$ 5,853
Developed technology	42,558	(39,270)	3,288
Customer relationships	31,783	(23,404)	8,379
	<u>\$ 90,318</u>	<u>\$ (72,798)</u>	<u>\$ 17,520</u>

	December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trade name	\$ 15,977	\$ (8,528)	\$ 7,449
Developed technology	42,558	(34,472)	8,086
Customer relationships	31,783	(19,533)	12,250
	<u>\$ 90,318</u>	<u>\$ (62,533)</u>	<u>\$ 27,785</u>

Amortization expense is included in the following functional statements of operations expense categories. Amortization expense was as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Cost of revenues	\$ 4,797	\$ 6,863	\$ 6,847
Sales and marketing	3,872	3,887	3,872
General and administrative	1,596	2,273	2,591
	<u>\$ 10,265</u>	<u>\$ 13,023</u>	<u>\$ 13,310</u>

The following table presents the Company's estimate of remaining amortization expense for each of the five succeeding fiscal years and thereafter for finite-lived intangible assets at December 31, 2019 (in thousands):

2020	\$ 6,172
2021	5,011
2022	2,686
2023	2,154
2024	855
Thereafter	642
	<u>\$ 17,520</u>

There were no changes in the carrying amount of goodwill for the years ended December 31, 2019, 2018, and 2017.

Note 11—Income Taxes

The amounts in the tables below reflect the revisions as discussed in Note 2, “Significant Accounting Policies”.

The components of income (loss) before income taxes were as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
United States	\$ (33,940)	\$ (30,967)	\$ (31,794)
International	3,519	3,263	(1,049)
	<u>\$ (30,421)</u>	<u>\$ (27,704)</u>	<u>\$ (32,843)</u>

The components of the total provision for income taxes were as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Current			
Federal	\$ —	\$ —	\$ —
State	59	24	51
Foreign	352	835	429
Total current tax expense	<u>411</u>	<u>859</u>	<u>480</u>
Deferred			
Federal	—	—	—
State	—	—	—
Foreign	1,314	213	85
Total deferred tax provision	<u>1,314</u>	<u>213</u>	<u>85</u>
Total provision for income taxes	<u>\$ 1,725</u>	<u>\$ 1,072</u>	<u>\$ 565</u>

A reconciliation of the statutory U.S. federal income tax rate to the Company’s effective tax rate for the years ended December 31, 2019, 2018, and 2017 was as follows:

	Year Ended December 31,		
	2019	2018	2017
Federal statutory income tax rate	21.0%	21.0%	34.0%
State tax, net of federal benefit	(0.2%)	(0.1%)	(0.1%)
Federal tax credits	5.8%	6.4%	3.3%
Change in valuation allowance	(34.1%)	(61.2%)	(13.6%)
Common stock warrants	—	—	(3.7%)
Foreign tax differential	(4.8%)	(5.1%)	(3.5%)
Windfall tax benefits, net related to stock-based compensation	11.2%	40.2%	15.3%
Effect of rate and other changes on federal deferred taxes, net due to enactment of Tax Cuts and Jobs Act	—	—	(30.0%)
Nondeductible officer compensation	(2.8%)	(1.8%)	—
Nondeductible meals and entertainment	(1.9%)	(1.7%)	—
Other	0.1%	(1.6%)	(3.4%)
	<u>(5.7%)</u>	<u>(3.9%)</u>	<u>(1.7%)</u>

Significant components of the Company's deferred tax assets and liabilities were as follows (in thousands):

	December 31,	
	2019	2018
Deferred tax assets		
Net operating loss carryforwards	\$ 49,310	\$ 44,422
Business credits	12,479	8,279
Stock-based compensation	7,155	5,839
Operating leases	3,263	—
Accrued expenses and other current liabilities	2,974	2,394
Other	358	1,192
Total deferred tax assets	75,539	62,126
Less: valuation allowance	(30,598)	(45,173)
Deferred tax assets, net of valuation allowance	44,941	16,953
Deferred tax liabilities		
Convertible notes	(25,510)	—
Intangible assets	(6,040)	(8,735)
Prepaid expenses	(15,163)	(10,676)
Property and equipment	(186)	(801)
Right-of-Use asset	(2,559)	—
Other	(54)	2
Total deferred tax liabilities	(49,512)	(20,210)
Net deferred taxes	\$ (4,571)	\$ (3,257)

ASC 740 requires that the tax benefit of net operating losses, temporary differences, and credit carryforwards be recorded as an asset to the extent that management assesses that realization is "more likely than not." A valuation allowance is recorded when it is more likely than not that some of the deferred tax assets will not be realized. Realization of future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. For financial reporting purposes, the Company has incurred losses for each of the past three years. Based on available objective evidence, including the Company's history of losses, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company provided a valuation allowance against certain deferred tax assets. The net deferred tax liability position at December 31, 2019 was related to the Company's foreign tax jurisdictions.

The changes in the valuation allowance were as follows (in thousands).

	Year Ended December 31,		
	2019	2018	2017
Valuation allowance, at beginning of year	\$ 45,173	\$ 23,904	\$ 2,674
Increase in valuation allowance recorded through earnings	12,808	21,269	7,332
Decrease in valuation allowance recorded through equity	(27,383)	—	—
Increase in valuation allowance as result of adoption of ASU 2016-09	—	—	13,898
Valuation allowance, at end of year	\$ 30,598	\$ 45,173	\$ 23,904

The Company did not provide for U.S. income taxes on the undistributed earnings and other outside temporary differences of foreign subsidiaries as they are considered indefinitely reinvested outside the United States. At December 31, 2019 and 2018, the amount of temporary differences related to undistributed earnings and other outside temporary differences upon which U.S. income taxes have not been provided is immaterial to these consolidated financial statements.

At December 31, 2019, the Company had consolidated federal and state net operating loss carryforwards available to offset future taxable income of approximately \$199.0 million and \$99.9 million, respectively. The federal losses will begin to expire in 2033, and the state losses will begin to expire between 2023 and 2033, depending on the jurisdiction. The Company has federal research and development credits and foreign tax credits of \$4.8 million and \$2.2 million,

respectively, which begin to expire in 2033 and 2023, respectively. The Company has state research and development credits and enterprise zone credits of \$5.0 million and \$0.6 million, respectively, which are indefinite in expiration and begin to expire in 2023, respectively. Pursuant to Internal Revenue Code Section 382, use of the Company's net operating loss carryforwards may be limited if the Company experiences a cumulative change in ownership of more than 50% over a three-year period.

The following is a rollforward of the Company's total gross unrecognized tax benefits (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Beginning gross unrecognized tax benefits	\$ 1,223	\$ 672	\$ 382
Increases related to prior year tax positions	134	130	38
Increases related to current year tax positions	380	421	252
Ending gross unrecognized tax benefits	<u>\$ 1,737</u>	<u>\$ 1,223</u>	<u>\$ 672</u>

At December 31, 2019, the realization of unrecognized tax benefits were not expected to impact the effective rate due to a full valuation allowance on federal and state deferred taxes. The Company has not recorded any interest or penalties in its provision for income taxes for the years ended December 31, 2019, 2018, and 2017 and no such amounts have been accrued at December 31, 2019 and 2018.

The Company files U.S. federal, various state, and foreign income tax returns. In the normal course of business, the Company is subject to examination by taxing authorities. The tax years from 2013 forward remain subject to examination for federal purposes. Generally, state and foreign tax authorities may examine the Company's tax returns for four years and five years, respectively, from the date an income tax return is filed. However, the taxing authorities may continue to examine the Company's federal and state net operating loss carryforwards until the statute of limitations closes on the tax years in which the federal and state net operating losses are utilized.

The Company does not anticipate material changes in the total amount or composition of its unrecognized tax benefits within 12 months of the reporting date.

Note 12—Net Loss per Share

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

	Year Ended December 31,		
	2019	2018	2017
Numerator:			
Net loss attributable to BlackLine, Inc.	<u>\$ (32,535)</u>	<u>\$ (28,714)</u>	<u>\$ (33,408)</u>
Denominator:			
Weighted average shares	55,320	53,912	52,161
Add: Dilutive effect of securities	—	—	—
Shares used to calculate diluted net loss per share	<u>55,320</u>	<u>53,912</u>	<u>52,161</u>
Basic net loss per share attributable to BlackLine, Inc.	<u>\$ (0.59)</u>	<u>\$ (0.53)</u>	<u>\$ (0.64)</u>
Diluted net loss per share attributable to BlackLine, Inc.	<u>\$ (0.59)</u>	<u>\$ (0.53)</u>	<u>\$ (0.64)</u>

The following potentially dilutive shares were excluded from the calculation of diluted net loss per share attributable to common stockholders because they were anti-dilutive:

	Year Ended December 31,		
	2019	2018	2017
Stock options with service-only vesting conditions	3,486	3,820	5,019
Stock options with performance conditions	683	683	683
Restricted stock units	1,654	1,300	2
Total shares excluded from net loss per share	<u>5,823</u>	<u>5,803</u>	<u>5,704</u>

Additionally, approximately 6.8 million shares underlying the conversion option in the Notes are not considered in the calculation of diluted net loss per share as the effect would be anti-dilutive. The shares are subject to adjustment, up to approximately 9.4 million shares for the Notes, if certain corporate events occur prior to the maturity date or if the Company issues a notice of redemption. 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. During the year ended December 31, 2019, the average market price of the Company's common stock did not exceed the conversion price of the Notes of \$73.40 per share.

Note 13—Contingent Consideration

In conjunction with the 2013 Acquisition, option holders of BlackLine Systems, Inc. were allowed to cancel their stock option rights and receive a cash payment equal to the amount of calculated gain (less applicable expense and other items) had they exercised their stock options and then sold their common shares as part of the 2013 Acquisition. As a condition of the 2013 Acquisition, the Company is required to pay additional cash consideration to certain equity holders if the Company realizes a tax benefit from the use of net operating losses generated from the stock option exercises concurrent with the 2013 Acquisition. The maximum contingent cash consideration to be distributed is \$8.0 million. The fair value of the contingent consideration was \$6.4 million and \$6.3 million at December 31, 2019 and 2018, respectively. See Note 2 for additional information regarding the valuation of the contingent consideration.

Note 14—Commitments and Contingencies

Purchase obligations— At December 31, 2019, the Company had \$16.8 million of non-cancelable purchase obligations primarily related to future sales and user conferences and software agreements.

Litigation—From time to time, the Company may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. The Company is not currently a party to any legal proceedings, nor is it aware of any pending or threatened litigation, that would have a material adverse effect on the Company's business, operating results, cash flows, or financial condition should such litigation be resolved unfavorably.

Indemnification—In the ordinary course of business, the Company may provide indemnification of varying scope and terms to customers, vendors, investors, directors, and officers with respect to certain matters, including, but not limited to, losses arising out of its breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third parties. These indemnification provisions may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is indeterminable. The Company has never paid a material claim, nor has it been sued in connection with these indemnification arrangements. At December 31, 2019 and 2018, the Company has not accrued a liability for these indemnification arrangements because the likelihood of incurring a payment obligation, if any, in connection with these indemnification arrangements was not probable or reasonably estimable.

Note 15—Equity Awards

2014 and 2016 Plans

On March 3, 2014, the Company adopted the 2014 Stock Incentive Plan (the “2014 Plan”). In November 2016, upon the completion of the Company’s initial public offering, the Company adopted the 2016 Equity Incentive Plan (the “2016 Plan”) and determined that it will no longer grant any additional awards under the 2014 Plan. However, the 2014 Plan continues to govern the terms and conditions of the outstanding awards previously granted under the 2014 plan. Upon the adoption of the 2016 Plan, the maximum number of shares issuable was 6.2 million, plus a number of shares equal to the number of shares subject to outstanding awards granted under the 2014 Plan after the date the 2014 Plan is terminated without having been exercised in full. The Company’s board of directors may grant stock options and restricted stock units to employees, directors and consultants under the 2016 Plan. The aggregate number of shares available under the 2016 Plan and the number of shares subject to outstanding options automatically adjusts for any changes in the Company’s outstanding common stock by reason of any recapitalization, spin-off, reorganization, reclassification, stock dividend, stock split, reverse stock split, or similar transaction. Stock options and restricted stock units generally vest over four years and have contractual terms of ten years.

In May 2017, warrants to purchase 499,999 shares of common stock were net exercised resulting in the issuance of 428,033 shares of common stock and, accordingly, there will be no further changes in the fair value.

At December 31, 2019, 10.8 million shares were available for issuance under the 2016 Plan.

Stock options with service-only vesting conditions

A summary of the Company’s stock option activity and related information for awards that contain service-only vesting conditions was as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	(in thousands)		(in years)	(in thousands)
Outstanding at December 31, 2018	3,820	\$ 21.85	7.5	\$ 75,287
Granted	480	\$ 49.24		
Exercised	(710)	\$ 15.44		
Forfeited/canceled	(104)	\$ 22.09		
Outstanding at December 31, 2019	<u>3,486</u>	\$ 26.92	7.0	\$ 85,983
Exercisable at December 31, 2019	2,019	\$ 18.43		

The weighted average grant date fair value per share of options granted during the years ended December 31, 2019, 2018, and 2017 that contain service only vesting conditions were \$23.40, \$20.15, and \$15.20, respectively. The aggregate intrinsic value of options exercised that contain service only vesting conditions during the years ended December 31, 2019, 2018, and 2017 were \$25.6 million, \$66.7 million, and \$31.4 million, respectively. Cash received from the exercise of stock options for the years ended December 31, 2019, 2018, and 2017 was \$10.6 million, \$14.0 million, and \$10.4 million, respectively.

Unrecognized compensation expense relating to stock options that contain service only vesting conditions was \$22.2 million at December 31, 2019, which is expected to be recognized over a weighted-average period of 2.5 years.

Stock options with performance conditions

In October 2016, the Company granted options to purchase 682,800 shares of common stock at an exercise price of \$14.00 per share to two executive officers that vest upon meeting certain performance conditions and continued service. The performance conditions include meeting yearly cash flow targets and cumulative annual recurring revenue targets through 2019. If each yearly cash flow target is met through 2019, but the full cumulative annual recurring target through 2019 is not met, the executive officers are still able to vest in the award if an additional cash flow target for 2020 and a cumulative annual recurring revenue target through 2020 are achieved. The cash flow performance targets for the final year were set during the quarter ended March 31, 2019, resulting in a grant date being established. The total fair value of the awards at grant date was approximately \$24.0 million. At December 31, 2019, the Company has determined that the

achievement of the performance targets is not probable and, accordingly, no stock-based compensation expense has been recorded for these awards. To the extent that the awards become probable of vesting prior to the grant date, the amount of compensation cost to be recognized will be based on the then fair value of the options. The fair value of the options will be remeasured each period until a grant date has been established. Accordingly, stock-based compensation cost, if any, to be recognized will depend on the value of the stock options when all performance conditions have been set and whether the performance conditions are probable of being achieved.

Restricted stock units

The following table summarizes activity for restricted stock units:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value
	(in thousands)	
Nonvested at December 31, 2018	1,300	\$ 42.29
Granted	961	\$ 49.55
Vested	(474)	\$ 42.80
Forfeited/canceled	(133)	\$ 46.08
Nonvested at December 31, 2019	<u>1,654</u>	\$ 46.05

At December 31, 2019, the intrinsic value of nonvested restricted stock units was \$85.3 million. At December 31, 2019, total unrecognized compensation cost related to nonvested restricted stock units was \$65.0 million and was expected to be recognized over a weighted-average period of 2.9 years.

Employee Stock Purchase Plan

Under the Company's 2018 Employee Stock Purchase Plan ("ESPP") eligible employees are granted the right to purchase shares at the lower of 85% of the fair value of the stock at the time of grant or 85% of the fair value at the time of exercise. The right to purchase shares is granted twice yearly for six month offering periods in May and November and exercisable on or about the succeeding November and May, respectively, of each year. Under the ESPP, 1.3 million shares remained available for issuance, at December 31, 2019. The Company recognized stock-based compensation expense related to the ESPP of \$2.1 million and \$0.2 million for the years ended December 31, 2019 and 2018, respectively.

The fair value of ESPP shares granted was estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended December 31,	
	2019	2018
Risk-free interest rate	1.6 - 2.4 %	2.6%
Expected term (in years)	0.5 - 1	0.7
Volatility	39.3 - 54.3 %	42.9%

At December 31, 2019, total unrecognized compensation cost related to the 2018 ESPP was \$2.3 million and was expected to be recognized over a weighted-average period of approximately one year.

Stock-based compensation expense

Stock-based compensation expense recorded in the Company's consolidated statements of operations was as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Cost of revenues	\$ 4,814	\$ 3,265	\$ 1,149
Sales and marketing	15,389	8,674	10,811
Research and development	4,729	2,570	767
General and administrative	9,120	6,386	3,317
	<u>\$ 34,052</u>	<u>\$ 20,895</u>	<u>\$ 16,044</u>

Stock-based compensation capitalized as an asset was \$0.5 million, \$0.4 million, and \$0.1 million in the years ended December 31, 2019, 2018, and 2017, respectively.

The Company recorded \$0.1 million and \$0.2 million of foreign tax benefits attributable to equity awards for the years ended December 31, 2019 and 2018, respectively. For the year ended December 31, 2017, no additional tax benefit attributable to equity awards was recorded due to the full valuation allowance provided on the Company's U.S. net deferred tax assets.

On July 21, 2017, the Company modified the vesting terms of options to purchase 219,000 shares of common stock to a time-based vesting schedule, for eight employees. Prior to the modification, the options vested solely upon a change in control of the Company. The Company recorded \$6.6 million of stock-based compensation in the year ended December 31, 2017 related to the modification.

Note 16—Defined Contribution Plan

The Company sponsors a defined contribution retirement plan (the "Plan") that covers substantially all domestic employees. The Company makes matching contributions of 100% of each \$1 of the employee's contribution up to the first 3% of the employee's bi-weekly compensation and 50% of each \$1 of the employee's contribution up to the next 2% of the employee's bi-weekly compensation. Matching contributions to the Plan recorded in the Company's consolidated statements of operations totaled \$3.6 million, \$2.9 million, and \$2.2 million for the years ended December 31, 2019, 2018, and 2017, respectively.

Note 17—Geographic Information

The following table sets forth the Company's long-lived assets, which consist of property and equipment, net, and operating lease right-of-use assets by geographic region (in thousands):

	Year Ended December 31,	
	2019	2018
United States	\$ 20,848	\$ 12,407
International	4,725	1,129
	<u>\$ 25,573</u>	<u>\$ 13,536</u>

Note 18—Subsequent Events

On February 19, 2020, the Compensation Committee of the Board of Directors of BlackLine, Inc. approved restricted stock unit grants to employees totaling 0.1 million shares. Each restricted stock unit entitles the recipient to receive one share of common stock upon vesting of the award. The vast majority of the restricted stock units will vest as to one-fourth of the total number of units awarded on the first anniversary of February 20, 2020 and quarterly thereafter for 12 consecutive quarters.

Note 19—Unaudited Quarterly Data

The following table sets forth unaudited quarterly consolidated statements of operations data for each of the quarters in the years ended December 31, 2019 and 2018. The Company has prepared the unaudited quarterly consolidated statements of operations data on a basis consistent with the audited annual consolidated financial statements. In the opinion of management, the financial information in this table reflects all adjustments, consisting of normal and recurring adjustments, necessary for the fair statement of this data. The amounts below reflect the revisions as discussed in Note 2, “Significant Accounting Policies”, and the 2019 amounts will be revised for interim periods in future filings and were not material to the previously-issued financial statements.

	Quarter Ended							
	2019				2018			
	December 31,	September 30,	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,
Revenues	\$ 80,258	\$ 74,925	\$ 69,664	\$ 64,129	\$ 62,316	\$ 58,734	\$ 55,454	\$ 51,284
Gross profit	\$ 65,137	\$ 59,633	\$ 54,720	\$ 50,511	\$ 48,431	\$ 45,217	\$ 43,588	\$ 39,678
Net loss	\$ (8,712)	\$ (8,876)	\$ (5,527)	\$ (9,031)	\$ (8,205)	\$ (4,766)	\$ (8,553)	\$ (7,252)
Net loss attributable to non-controlling interest	\$ (466)	\$ (509)	\$ (219)	\$ (250)	\$ (62)	\$ —	\$ —	\$ —
Adjustment attributable to non-controlling interest	\$ 940	\$ 839	\$ 54	\$ —	\$ —	\$ —	\$ —	\$ —
Net loss attributable to BlackLine, Inc.	\$ (9,186)	\$ (9,206)	\$ (5,362)	\$ (8,781)	\$ (8,143)	\$ (4,766)	\$ (8,553)	\$ (7,252)
Basic net loss per share attributable to BlackLine, Inc.	\$ (0.16)	\$ (0.17)	\$ (0.10)	\$ (0.16)	\$ (0.15)	\$ (0.09)	\$ (0.16)	\$ (0.14)
Diluted net loss per share attributable to BlackLine, Inc.	\$ (0.16)	\$ (0.17)	\$ (0.10)	\$ (0.16)	\$ (0.15)	\$ (0.09)	\$ (0.16)	\$ (0.14)

The tables below reflect the impact of the revisions on the unaudited quarterly data as discussed in Note 2, “Significant Accounting Policies.” The revision of the unaudited quarterly financial statements for the quarter ended March 31, 2019, the quarter and six months ended June 30, 2019, and the quarter and nine months ended September 30, 2019 will be effected in connection with the Company’s 2020 Form 10-Q filings.

	Quarter Ended March 31, 2018		
	As Previously Reported	Adjustments	As Revised
	(in thousands, except per share data)		
Net loss	\$ (7,155)	\$ (97)	\$ (7,252)
Net loss attributable to BlackLine, Inc.	\$ (7,155)	\$ (97)	\$ (7,252)
Basic net loss per share attributable to BlackLine, Inc.	\$ (0.13)	\$ (0.01)	\$ (0.14)
Diluted net loss per share attributable to BlackLine, Inc.	\$ (0.13)	\$ (0.01)	\$ (0.14)

	Quarter Ended June 30, 2018		
	As Previously Reported	Adjustments	As Revised
	(in thousands, except per share data)		
Net loss	\$ (8,457)	\$ (96)	\$ (8,553)
Net loss attributable to BlackLine, Inc.	\$ (8,457)	\$ (96)	\$ (8,553)

	Quarter Ended September 30, 2018		
	As Previously Reported	Adjustments	As Revised
	(in thousands, except per share data)		
Net loss	\$ (4,460)	\$ (306)	\$ (4,766)
Net loss attributable to BlackLine, Inc.	\$ (4,460)	\$ (306)	\$ (4,766)
Basic net loss per share attributable to BlackLine, Inc.	\$ (0.08)	\$ (0.01)	\$ (0.09)
Diluted net loss per share attributable to BlackLine, Inc.	\$ (0.08)	\$ (0.01)	\$ (0.09)

Quarter Ended December 31, 2018

	As Previously Reported	Adjustments	As Revised
(in thousands, except per share data)			
Net loss	\$ (7,794)	\$ (411)	\$ (8,205)
Net loss attributable to BlackLine, Inc.	\$ (7,732)	\$ (411)	\$ (8,143)
Basic net loss per share attributable to BlackLine, Inc.	\$ (0.14)	\$ (0.01)	\$ (0.15)
Diluted net loss per share attributable to BlackLine, Inc.	\$ (0.14)	\$ (0.01)	\$ (0.15)

Quarter Ended March 31, 2019

	As Previously Reported	Adjustments	As Revised
(in thousands, except per share data)			
Net loss	\$ (8,833)	\$ (198)	\$ (9,031)
Net loss attributable to BlackLine, Inc.	\$ (8,583)	\$ (198)	\$ (8,781)

Quarter Ended June 30, 2019

	As Previously Reported	Adjustments	As Revised
(in thousands, except per share data)			
Net loss	\$ (5,390)	\$ (137)	\$ (5,527)
Net loss attributable to BlackLine, Inc.	\$ (5,225)	\$ (137)	\$ (5,362)
Basic net loss per share attributable to BlackLine, Inc.	\$ (0.09)	\$ (0.01)	\$ (0.10)
Diluted net loss per share attributable to BlackLine, Inc.	\$ (0.09)	\$ (0.01)	\$ (0.10)

Quarter Ended September 30, 2019

	As Previously Reported	Adjustments	As Revised
(in thousands, except per share data)			
Net loss	\$ (8,912)	\$ 36	\$ (8,876)
Net loss attributable to BlackLine, Inc.	\$ (9,242)	\$ 36	\$ (9,206)

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

None.

Item 9A. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act, as amended, or “the Exchange Act” means controls and other procedures of a company that are designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC’s rules and forms; and that such information is accumulated and communicated to the company’s management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures at December 31, 2019, the last day of the period covered by this Annual Report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, at December 31, 2019, our disclosure controls and procedures were effective at the reasonable assurance level.

Limitations on the Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures and internal control over financial reporting, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and our management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any disclosure controls and procedures and internal control over financial reporting 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.

Management’s Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act).

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective at December 31, 2019. The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) under the Exchange Act that occurred during the quarter ended December 31, 2019 that have materially affected, or are 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 information required by this item will be included in our Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission, or the SEC, within 120 days of the fiscal year ended December 31, 2019, and is incorporated herein by reference.

Item 11. *Executive Compensation*

The information required by this item will be included in our Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019, and is incorporated herein by reference.

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

The information required by this item will be included in our Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019, and is incorporated herein by reference.

Securities Authorized for Issuance under Equity Compensation Plan

The information required by this item will be included in our Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019, and is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

The information required by this item will be included in our Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019, and is incorporated herein by reference.

Item 14. *Principal Accounting Fees and Services*

The information required by this item will be included in our Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019, and is incorporated herein by reference.

With the exception of the information incorporated in Items 10, 11, 12, 13, and 14 of this Annual Report on Form 10-K, our Definitive Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2019 is not deemed "filed" as part of this Annual Report on Form 10-K.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

Documents filed as part of this report are as follows:

1. Consolidated Financial Statements:

Our Consolidated Financial Statements are listed in the “Index to Consolidated Financial Statements” under Part II, Item 8 of this Annual Report on Form 10-K.

2. Financial Statement Schedules:

Financial Statement Schedules have been omitted as information required is inapplicable or the information is presented in the consolidated financial statements and the related notes.

3. Exhibits:

The documents listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K.

Exhibit Index

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1	Agreement and Plan of Merger, by and among SLS Breeze Holdings, Inc., SLS Breeze Intermediate Holdings, Inc., SLS Breeze Merger Sub, Inc. and BlackLine Systems, Inc., dated as of August 9, 2013	S-1	333-213899	2.1	September 30, 2016
3.1	Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation of the Registrant, effecting a one-for-five reverse stock split.	S-1/A	333-213899	3.2	October 17, 2016
3.2	Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	001-37924	3.2	December 12, 2016
3.3	Amended and Restated Bylaws of the Registrant.	10-Q	001-37924	3.3	December 12, 2016
4.1	Specimen Common Stock Certificate of the Company.	S-1	333-213899	4.1	September 30, 2016
4.2**	Description of Company's Securities				
4.3	Amended and Restated Stockholders' Agreement, by and among the Registrant, Silver Lake Sumeru, Iconiq, Therese Tucker and Mario Spanicciati.	10-Q	001-37924	4.2	December 12, 2016
4.4	Amended and Restated Registration Rights Agreement, by and among the Registrant, Silver Lake Sumeru, Iconiq, Therese Tucker and Mario Spanicciati.	10-Q	001-37924	4.3	December 12, 2016
4.5	Subscription Agreement, by and between the Company and Iconiq, dated as of October 21, 2014.	S-1	333-213899	4.7	September 30, 2016
4.6	Form of Senior Indenture.	S-3	333- 221500	4.5	November 13, 2017
4.7	Form of Subordinated Indenture.	S-3	333- 221500	4.6	November 13, 2017
4.8	Indenture, dated as of August 13, 2019, between the Company and U.S. Bank National Association.	8-K	001-37924	4.1	August 13, 2019
4.9	Form of 0.125% Convertible Senior Note due 2024 (included in Exhibit 4.8).	8-K	001-37924	4.2	August 13, 2019
10.1*	Software Development Cooperation Agreement, by and between the Company and SAP AG, effective as of October 1, 2013.	S-1	333-213899	10.1	September 30, 2016

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.2	Amendment No. 1 to Software Development Cooperation Agreement, by and between the Company and SAP AG, effective as of October 31, 2018	10-K	001-37924	10.2	February 28, 2019
10.3+	2014 Equity Incentive Plan and form of equity agreements thereunder.	S-1	333-213899	10.6	September 30, 2016
10.4+	Amendment No. 1 to the 2014 Equity Incentive Plan.	S-1	333-213899	10.7	September 30, 2016
10.5+	Amendment No. 2 to the 2014 Equity Incentive Plan.	S-1	333-213899	10.8	September 30, 2016
10.6+	Amendment No. 3 to the 2014 Equity Incentive Plan.	S-1	333-213899	10.9	September 30, 2016
10.7+	2016 Equity Incentive Plan and the form of equity award agreements thereunder.	S-1/A	333-213899	10.10	October 17, 2016
10.8+	Employee Incentive Compensation Plan of the Company.	S-1	333-213899	10.11	September 30, 2016
10.9+	2018 Employee Stock Purchase Plan.	10-Q	001-37924	10.2	August 8, 2018
10.10+	Form of Change of Control and Severance Policy.	S-1	333-213899	10.13	September 30, 2016
10.11+	Executive Employment Agreement, by and between the Registrant and Therese Tucker, effective as of January 1, 2016.	S-1	333-213899	10.14	September 30, 2016
10.12+	Employment Offer Letter, by and between the Company and Karole Morgan-Prager, dated as of May 4, 2015.	S-1	333-213899	10.16	September 30, 2016
10.13+	Confirmatory Offer Letter, by and between the Registrant and Karole Morgan-Prager, dated as of September 29, 2016.	S-1	333-213899	10.18	September 30, 2016
10.14+	Employment Offer Letter, by and between the Company and Mark Partin, dated as of December 25, 2014.	S-1	333-213899	10.19	September 30, 2016
10.15+	Confirmatory Offer Letter, by and between the Registrant and Mark Partin, dated as of September 29, 2016.	S-1	333-213899	10.20	September 30, 2016
10.16+	Employment Offer Letter, by and between the Registrant and Marc Huffman, dated as of January 8, 2018.	10-Q	001-37924	10.18	May 9, 2018
10.17+	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.	S-1	333-213899	10.22	September 30, 2016
10.18	Restrictive Covenant Agreement, by and between the Company and Therese Tucker, dated as of August 8, 2013.	S-1	333-213899	10.23	September 30, 2016
10.19	Restrictive Covenant Agreement, by and between the Company and Mario Spanicciati, dated as of August 9, 2013.	S-1	333-213899	10.24	September 30, 2016
10.20*	Office Lease, by and between the Company and Douglas Emmet 2008, LLC, dated November 22, 2010.	S-1	333-213899	10.25	September 30, 2016
10.21*	First Amendment to Office Lease, by and between the Company and Douglas Emmett 2008, LLC, dated August 14, 2012.	S-1	333-213899	10.26	September 30, 2016
10.22*	Second Amendment to Office Lease, by and between the Company and Douglas Emmett 2008, LLC, dated December 26, 2013.	S-1	333-213899	10.27	September 30, 2016

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.23*	Third Amendment to Office Lease, by and between the Company and Douglas Emmett 2008, LLC, dated June 24, 2014.	S-1	333-213899	10.28	September 30, 2016
10.24	Fourth Amendment to Office Lease, by and between the Company and Douglas Emmett 2008, LLC, dated January 29, 2015.	S-1	333-213899	10.29	September 30, 2016
10.25	Fifth Amendment to Office Lease, by and between the Company and Douglas Emmett 2008, LLC, dated October 6, 2016.	S-1/A	333-217981	10.26	May 22, 2017
10.26	Sixth Amendment to Office Lease, by and between the Company and Douglas Emmett 2008, LLC, dated May 10, 2017.	S-1/A	333-217981	10.27	May 22, 2017
10.27	Seventh Amendment to Office Lease, by and between the Company and Douglas Emmett 2008, LLC, dated May 18, 2017.	S-1/A	333-217981	10.28	May 22, 2017
10.28	Purchase Agreement, dated August 8, 2019, by and among the Company and Morgan Stanley & Co. LLC and J.P. Morgan Securities LLC, as representatives of the several initial purchasers named in Schedule I thereto.	8-K	001-37924	10.1	August 13, 2019
10.29	Form of Capped Call Confirmation.	8-K	001-37924	10.2	August 13, 2019
21.1**	List of subsidiaries of the Company.				
23.1**	Consent of Independent Registered Public Accounting Firm.				
24.1**	Power of Attorney (included in signature pages hereto).				
31.1**	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2**	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1†	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS**	Inline XBRL Instance Document				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL**	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF**	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB**	Inline XBRL Taxonomy Extension Label Linkbase Document				

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				

* Portions of this exhibit (indicated by “[**]”) have been omitted as the Company has determined the omitted information (i) is not material and (ii) would be competitively harmful to Registrant if publicly disclosed

** Filed herewith.

+ Indicates management contract or compensatory plan.

† The certifications attached as Exhibit 32.1 that accompany this Annual Report on Form 10-K are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of BlackLine, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on February 27, 2020.

BLACKLINE, INC.

By: /s/ Therese Tucker
 Name: Therese Tucker
 Title: Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Therese Tucker and Mark Partin, and each of them, as his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign 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 he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitutes, may lawfully do or cause to be done by virtue thereof.

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 Company and in the capacities and on the dates indicated:

Signature	Title	Date
<u> /s/ Therese Tucker </u> Therese Tucker	Chief Executive Officer and Director (Principal Executive Officer)	February 27, 2020
<u> /s/ Mark Partin </u> Mark Partin	Chief Financial Officer (Principal Financial Officer)	February 27, 2020
<u> /s/ Patrick Villanova </u> Patrick Villanova	Chief Accounting Officer (Principal Accounting Officer)	February 27, 2020
<u> /s/ Jason Babcoke </u> Jason Babcoke	Director	February 27, 2020
<u> /s/ John Brennan </u> John Brennan	Director	February 27, 2020
<u> /s/ William Griffith </u> William Griffith	Director	February 27, 2020
<u> /s/ Owen Ryan </u> Owen Ryan	Director	February 27, 2020
<u> /s/ Graham Smith </u> Graham Smith	Director	February 27, 2020
<u> /s/ Mario Spanicciati </u> Mario Spanicciati	Director	February 27, 2020
<u> /s/ Kevin Thompson </u> Kevin Thompson	Director	February 27, 2020
<u> /s/ Thomas Unterman </u> Thomas Unterman	Director	February 27, 2020

Signature

Title

Date

/s/ Mika Yamamoto
Mika Yamamoto

Director

February 27, 2020

DESCRIPTION OF THE COMPANY'S SECURITIES

The following description of the capital stock of BlackLine, Inc. (“us,” “our,” “we” or the “Company”) is a summary of the rights of our common stock and certain provisions of our amended and restated certificate of incorporation and amended and restated bylaws currently in effect. This summary does not purport to be complete and is qualified in its entirety by the provisions of our amended and restated certificate of incorporation and amended and restated bylaws, each previously filed with the Securities and Exchange Commission and incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.2 is a part, as well as to the applicable provisions of the Delaware General Corporation Law (the “DGCL”). For a complete description of our capital stock, we encourage you to read our certificate of incorporation, bylaws and the applicable portions of the DGCL carefully.

Our authorized capital stock consists of 500,000,000 shares of common stock, \$0.01 par value and 50,000,000 shares of preferred stock, \$0.01 par value. As of December 31, 2019, there were 55,930,994 shares of our common stock issued and outstanding held of record by 19 stockholders. The number of record holders does not include beneficial holders who hold their shares in “street name,” meaning that the shares are held for their accounts by a broker or other nominee.

Common Stock

Voting Rights

Each holder of our common stock is entitled to one vote for each share on all matters submitted to a vote of the stockholders, including the election of directors. Under our amended and restated certificate of incorporation and bylaws, our stockholders will not have cumulative voting rights. Because of this, the holders of a majority of the shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they should so choose.

Dividends

Holders of common stock are entitled to receive ratably those dividends, if any, as may be declared from time to time by the board of directors out of legally available funds.

Liquidation

In the event of our liquidation, dissolution or winding up, holders of common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities.

Rights and Preferences

Holders of shares of common stock have no preemptive, conversion or subscription rights and there are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of the holders of shares of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate in the future.

Preferred Stock

No shares of our preferred stock are currently outstanding. Under our amended and restated certificate of incorporation, our board of directors, without further action by our stockholders, is authorized to issue shares of preferred stock in one or more classes or series. The board may fix or

alter the rights, preferences and privileges of the preferred stock, along with any limitations or restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences of each class or series of preferred stock. The preferred stock could have voting or conversion rights that could adversely affect the voting power or other rights of holders of our common stock. The issuance of preferred stock could also have the effect, under certain circumstances, of delaying, deferring or preventing a change of control of our company. We currently have no plans to issue any shares of preferred stock.

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

Certain provisions of Delaware law, our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could have the effect of delaying, deferring or discouraging another party from acquiring control of us. These provisions are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate more favorable terms with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us.

Classified Board

Our amended and restated certificate of incorporation provides that our board of directors is divided into three classes of directors, with the classes as nearly equal in number as possible, and with the directors serving three-year terms. As a result, approximately one-third of our board will be elected each year. The classification of directors will have the effect of making it more difficult for stockholders to change the composition of our board. Our amended and restated certificate of incorporation also provides that, subject to any rights of holders of preferred stock to elect additional directors under specified circumstances and the Stockholders' Agreement by and between the Company and our principal stockholders named therein ("Principal Stockholders"), dated as of October 27, 2016 (the "Stockholders' Agreement"), the number of directors will be fixed exclusively pursuant to a resolution adopted by our board. Our board of directors is currently comprised of ten members.

Stockholder Action by Written Consent

Our amended and restated certificate of incorporation precludes stockholder action by written consent.

Special Meetings of Stockholders

Our amended and restated certificate of incorporation provides that, except as required by law, special meetings of our stockholders may be called at any time only by or at the direction of our board or the chairman of our board. Our amended and restated bylaws prohibit the conduct of any business at a special meeting other than as specified in the notice for such meeting. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control or management of the company.

Advance Notice Procedures

Our amended and restated bylaws contain an advance notice procedure for stockholder proposals to be brought before an annual meeting of our stockholders, including proposed nominations of persons for election to our board; provided, however, such advance notice procedures will not apply to a Principal Stockholder at any time when such Principal Stockholder beneficially owns at least 10% of the total number of shares of our common stock then outstanding. Stockholders at an annual meeting will only be able to consider proposals or nominations specified in the notice of meeting or brought before the meeting by or at the direction of our board or by a stockholder who was a stockholder of record on the record date for the meeting, who is entitled to vote at the meeting and who has given our secretary timely written

notice, in proper form, of the stockholder's intention to bring that business before the meeting. Although the amended and restated bylaws will not give our board the power to approve or disapprove stockholder nominations of candidates or proposals regarding other business to be conducted at a special or annual meeting, the bylaws may have the effect of precluding the conduct of certain business at a meeting if the proper procedures are not followed or may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect its own slate of directors or otherwise attempting to obtain control of the company.

Removal of Directors; Vacancies

Our amended and restated certificate of incorporation provides that directors may be removed with or without cause upon the affirmative vote of a majority in voting power of all outstanding shares of stock entitled to vote thereon, voting together as a single class. In connection with votes for removal, the parties to the Stockholders' Agreement will agree to vote their shares in accordance with the board composition requirements in such agreement and the wishes of the party which designated a director regarding removal of such director. Any newly created directorships that result in a vacancy on the board will be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director (and not by the stockholders). In addition, in the event that Therese Tucker or Mario Spanicciati cease to be employed by the company for any reason and she or he beneficially owns less than 5% of the total number of shares of our common stock outstanding, (i) she or he will be required to immediately tender her or his resignation from the board of directors effective only upon acceptance by the board of directors and (ii) the board of directors may, in its sole discretion, accept or reject such resignation. If the board of directors rejects the resignation, Ms. Tucker or Mr. Spanicciati, as applicable, will continue to have the right to be designated for membership on the board of directors; provided that the board of directors will have the right, by unanimous vote of the other directors (excluding both Ms. Tucker and Mr. Spanicciati), to require such director's resignation from the board of directors if the board of directors determines such resignation would be in the best interests of the company, regardless of the number of shares of common stock held by Ms. Tucker or Mr. Spanicciati.

Supermajority Approval Requirements

Our amended and restated certificate of incorporation and amended and restated bylaws provide that our board of directors is expressly authorized to make, alter, amend and rescind, in whole or in part, our bylaws without a stockholder vote in any matter not inconsistent with the laws of the State of Delaware and our certificate of incorporation. Any amendment, alteration, rescission or repeal of our amended and restated bylaws by our stockholders requires the affirmative vote of the holders of at least 75% voting power of all the then outstanding shares of our stock entitled to vote thereon, voting together as a single class.

The DGCL provides generally that the affirmative vote of a majority of the outstanding shares entitled to vote thereon, voting together as a single class, is required to amend a corporation's certificate of incorporation, unless the certificate of incorporation requires a greater percentage.

Our certificate of incorporation provides that, the following provisions in our amended and restated certificate of incorporation may be amended, altered, repealed or rescinded only by the affirmative vote of the holders of at least 75% of the voting power of all the then outstanding shares of our stock entitled to vote thereon, voting together as a single class:

- the provisions providing for a classified board of directors (the election and term of our directors);
- the provisions regarding resignation and removal of directors;
- the provisions regarding competition and corporate opportunity;
- the provisions regarding entering into business combinations with interested stockholders;

- the provisions regarding stockholder action by written consent;
- the provisions regarding calling special meetings of stockholders;
- the provisions regarding filling vacancies on our board and newly created directorships;
- the provisions eliminating monetary damages for breaches of fiduciary duty by a director; and
- the amendment provision requiring that the above provisions be amended only with a 75% supermajority vote.

The combination of the classification of our board of directors, the lack of cumulative voting and the supermajority voting requirements will make it more difficult for our existing stockholders to replace our board of directors as well as for another party to obtain control of us by replacing our board. Because our board of directors has the power to retain and discharge our officers, these provisions could also make it more difficult for existing stockholders or another party to effect a change in management.

Authorized but Unissued Shares

Our authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to stock exchange rules. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. One of the effects of the existence of authorized but unissued common stock or preferred stock may be to enable our board to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of the company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive our stockholders of opportunities to sell their shares of common stock at prices higher than prevailing market prices.

Business Combinations

We are not subject to the provisions of Section 203 of the DGCL. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a three-year period following the time that the person becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An “interested stockholder” is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation’s voting stock.

Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions: (1) before the stockholder became an interested stockholder, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; (2) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers, and employee stock plans, in some instances; or (3) at or after the time the stockholder became an interested stockholder, the business combination was approved by the board of directors and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

A Delaware corporation may “opt out” of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or bylaws resulting from a stockholders’ amendment approved by at least a majority of the outstanding voting shares.

We have opted out of Section 203; however, our amended and restated certificate of incorporation contains similar provisions providing that we may not engage in certain “business combinations” with any “interested stockholder” for a three-year period following the time that the stockholder became an interested stockholder, unless:

- prior to such time, our board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding certain shares; or
- at or subsequent to that time, the business combination is approved by our board of directors and by the affirmative vote of holders of at least 66 2/3% of our outstanding voting stock that is not owned by the interested stockholder.

Under certain circumstances, this provision will make it more difficult for a person who would be an “interested stockholder” to effect various business combinations with the company for a three-year period. This provision may encourage companies interested in acquiring the company to negotiate in advance with our board because the stockholder approval requirement would be avoided if our board approves either the business combination or the transaction which results in the stockholder becoming an interested stockholder. These provisions also may have the effect of preventing changes in our board and may make it more difficult to accomplish transactions which stockholders may otherwise deem to be in their best interests.

Exclusive Forum

Our amended and restated bylaws provides that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action asserting a claim against the company or any director or officer of the company arising pursuant to any provision of the DGCL, or (4) any other action asserting a claim that is governed by the internal affairs doctrine shall be a state or federal court located within the State of Delaware, in all cases subject to the court’s having jurisdiction over indispensable parties named as defendants. Any person or entity purchasing or otherwise acquiring any interest in our shares of capital stock shall be deemed to have notice of and consented to this provision. Although we believe these provisions benefit us by providing increased consistency in the application of Delaware law for the specified types of actions and proceedings, the provisions may have the effect of discouraging lawsuits against us or our directors and officers.

Conflicts of Interest

Delaware law permits corporations to adopt provisions renouncing any interest or expectancy in certain opportunities that are presented to the corporation or its officers, directors or stockholders. Our amended and restated certificate of incorporation, to the maximum extent permitted from time to time by Delaware law, renounces any interest or expectancy that we have in, or right to be offered an opportunity to participate in, specified business opportunities that are from time to time presented to certain of our officers, directors or stockholders or their respective affiliates, other than those officers, directors, stockholders or affiliates who are our or our subsidiaries’ employees. Our certificate of incorporation provides that, to the fullest extent permitted by law, none of Silver Lake Sumeru or Iconiq, their respective affiliates or the directors they designate will have any duty to refrain from (1) engaging in a corporate or business

opportunity or offer a prospective economic or competitive advantage in which we, or any of our affiliates, directly could have an interest of expectancy, (2) otherwise competing with us or our affiliates, (3) otherwise doing business with any potential or actual customer or supplier of ours or our affiliates or (4) otherwise employing or engaging any officer or employee or any of our affiliates. In addition, to the fullest extent permitted by law, in the event that Silver Lake Sumeru or Iconiq, their respective affiliates or the directors they designate acquires knowledge of a potential transaction or other business opportunity which may be a corporate opportunity for itself, herself or himself or its or his affiliates or for us or our affiliates, such person will have no duty to communicate or offer such transaction or business opportunity to us or any of our affiliates and they may take any such opportunity for themselves or offer it to another person or entity. Our amended and restated certificate of incorporation does not renounce our interest in any business opportunity that is expressly offered to Silver Lake Sumeru, Iconiq, their respective affiliates or the directors they designate solely in his or her capacity as a director or officer of the company. To the fullest extent permitted by law, no business opportunity will be deemed to be a potential corporate opportunity for us unless we would be permitted to undertake the opportunity under our amended and restated certificate of incorporation, we have sufficient financial resources to undertake the opportunity, the opportunity would be in line with our business, and the opportunity is one in which we have an interest or reasonable expectancy.

Limitations on Liability and Indemnification of Officers and Directors

The DGCL authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties, subject to certain exceptions. Our amended and restated certificate of incorporation includes a provision that eliminates the personal liability of directors for monetary damages for any breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL. These provisions eliminate the rights of us and our stockholders, through stockholders' derivative suits on our behalf, to recover monetary damages from a director for breach of fiduciary duty as a director, including breaches resulting from grossly negligent behavior. However, exculpation will not apply to any director if the director has acted in bad faith, knowingly or intentionally violated the law, authorized illegal dividends or redemptions or derived an improper benefit from his or her actions as a director.

Our amended and restated bylaws provide that we must indemnify and advance expenses to our directors and officers to the fullest extent authorized by the DGCL. We also are expressly authorized to carry directors' and officers' liability insurance providing indemnification for our directors, officers and certain employees for some liabilities. We believe that these indemnification and advancement provisions and insurance will be useful to attract and retain qualified directors and officers.

The limitation of liability, indemnification and advancement provisions included in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against directors for breaches of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. In addition, your investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions.

There is currently no pending material litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC. The transfer agent and registrar's address is 6201 15th Avenue, Brooklyn, New York 11219, and its telephone number is (718) 921-8206.

Listing

Our common stock is listed on the Nasdaq Global Select Market under the symbol “BL”.

LIST OF SUBSIDIARIES OF THE COMPANY

Name of Subsidiary	Jurisdiction of Incorporation
BlackLine Systems, Inc.	California
BlackLine Intermediate, Inc.	Delaware
BlackLine CV, LLC	Delaware
BlackLine Coop, LLC	Delaware
Runbook Inc.	Delaware
BlackLine Systems Pty Ltd.	Australia
BlackLine Systems, Ltd.	Canada
BlackLine Systems S.a r.l.	France
BlackLine Systems Germany Gmb H	Germany
BlackLine C.V.	Netherlands
BlackLine Coöperatief U.A.	Netherlands
Runbook Company BV	Netherlands
Runbook IP BV	Netherlands
BlackLine International BV	Netherlands
BlackLine Sp. z o.o.	Poland
BlackLine Systems SRL	Romania
BlackLine Systems Pte. Ltd.	Singapore
BlackLine Systems Limited	United Kingdom
BlackLine K.K.	Japan

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-214309, 333-217985, 333-223528, 333-226818, and 333-229968) and Form S-3 (No. 333-221500) of BlackLine, Inc. of our report dated February 27, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Los Angeles, CA
February 27, 2020

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Therese Tucker, certify that:

1. I have reviewed this Annual Report on Form 10-K of BlackLine, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

BLACKLINE, INC.

By: /s/ Therese Tucker
Name: Therese Tucker
Title: Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Partin, certify that:

1. I have reviewed this Annual Report on Form 10-K of BlackLine, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 27, 2020

BLACKLINE, INC.

By: /s/ Mark Partin

Name: Mark Partin

Title: Chief Financial Officer

(Principal Financial Officer)

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

I, Therese Tucker, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of BlackLine, Inc. for the fiscal year ended December 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of BlackLine, Inc.

Date: February 27, 2020

By: /s/ Therese Tucker
Name: Therese Tucker
Title: Chief Executive Officer
(Principal Executive Officer)

I, Mark Partin, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of BlackLine, Inc. for the fiscal year ended December 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of BlackLine, Inc.

Date: February 27, 2020

By: /s/ Mark Partin
Name: Mark Partin
Title: Chief Financial Officer
(Principal Financial Officer)