UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

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	**46-3354276**
(State or other jurisdiction of incorporation or organization)	**(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	NASDAQ Global Select Market

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

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 x No o

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 Rule12b-2 of the Exchange Act.

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

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

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

The number of shares of the registrant's common stock outstanding at October 30, 2020 was 57,254,972.

BlackLine, Inc.

Quarterly Report on Form 10-Q

For the Quarterly Period Ended September 30, 2020

TABLE OF CONTENTS

Part I. Financial Information

Item 1.	Unaudited Condensed Consolidated Financial Statements	4
	Unaudited Condensed Consolidated Balance Sheets at September 30, 2020 and December 31, 2019	4
	Unaudited Condensed Consolidated Statements of Operations for the Quarters and Nine Months Ended September 30, 2020 and 2019	5
	Unaudited Condensed Consolidated Statements of Comprehensive Loss for the Quarters and Nine Months Ended September 30, 2020 and 2019	6
	Unaudited Condensed Consolidated Statements of Stockholders' Equity for the Quarters and Nine Months Ended September 30, 2020 and 2019	7
	Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2020 and 2019	9
	Notes to Unaudited Condensed Consolidated Financial Statements	11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	37

Part II. Other Information

Item 1.	Legal Proceedings	37
Item 1A.	Risk Factors	37
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	62
Item 6.	Exhibits	62

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, 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 acquisitions, extension of distribution channels and strategic relationships, product innovation, international expansion, customer growth and expansion, customer service initiatives, expectations regarding our acquisitions, 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; the impact of the COVID-19 pandemic and the related responses by governments and private industry on our business and financial condition, as well as that of our customers and partners; changes in the competitive environment in our industry and the markets in which we operate and our liquidity and capital resources. 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, except as required by applicable law.

Unless the context otherwise requires, the terms “BlackLine, Inc.,” “the Company,” “we,” “us” and “our” in this Quarterly Report on Form 10-Q refer to the consolidated operations of BlackLine, Inc. and its consolidated subsidiaries as a whole.

Part 1 – Financial Information

Item 1. Financial Statements

BLACKLINE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in thousands)

	September 30, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 408,070	$ 120,232
Marketable securities	117,433	487,515
Accounts receivable, net of allowances for credit losses of $4,983 and $3,533 at September 30, 2020 and December 31, 2019, respectively	91,137	102,829
Prepaid expenses and other current assets	137,357	12,830
Total current assets	753,997	723,406
Capitalized software development costs, net	13,925	10,032
Property and equipment, net	10,787	13,024
Intangible assets, net	15,066	17,520
Goodwill	185,138	185,138
Operating lease right-of-use assets	9,274	12,549
Other assets	58,578	52,883
Total assets	$ 1,046,765	$ 1,014,552
LIABILITIES, REDEEMABLE NON-CONTROLLING INTEREST, AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,088	$ 7,401
Accrued expenses and other current liabilities	29,546	30,098
Deferred revenue	165,699	162,552
Short-term portion of operating lease liabilities	4,289	4,938
Short-term portion of contingent consideration	2,008	2,008
Total current liabilities	203,630	206,997
Operating lease liabilities, noncurrent	7,828	10,606
Convertible senior notes, net	401,217	384,343
Contingent consideration	4,206	4,354
Deferred tax liabilities, net	4,750	4,571
Deferred revenue, noncurrent	72	163
Total liabilities	621,703	611,034
Commitments and contingencies (Note 7)		
Redeemable non-controlling interest (Note 3)	8,128	4,905
Stockholders' equity:		
Common stock	573	559
Additional paid-in capital	605,078	561,275
Accumulated other comprehensive income	568	377
Accumulated deficit	(189,285)	(163,598)
Total stockholders' equity	416,934	398,613
Total liabilities, redeemable non-controlling interest, and stockholders' equity	$ 1,046,765	$ 1,014,552

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

BLACKLINE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share data)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues				
Subscription and support	$ 83,875	$ 70,311	$ 238,777	$ 197,651
Professional services	6,282	4,614	17,250	11,067
Total revenues	90,157	74,925	256,027	208,718
Cost of revenues				
Subscription and support	11,700	11,689	34,708	34,109
Professional services	5,282	3,603	15,082	9,745
Total cost of revenues	16,982	15,292	49,790	43,854
Gross profit	73,175	59,633	206,237	164,864
Operating expenses				
Sales and marketing	42,588	41,848	129,199	114,888
Research and development	14,829	11,558	38,423	32,694
General and administrative	17,794	14,088	51,314	40,444
Total operating expenses	75,211	67,494	218,936	188,026
Loss from operations	(2,036)	(7,861)	(12,699)	(23,162)
Other income (expense)				
Interest income	648	2,161	4,142	3,590
Interest expense	(5,914)	(3,006)	(17,340)	(3,006)
Other income (expense), net	(5,266)	(845)	(13,198)	584
Loss before income taxes	(7,302)	(8,706)	(25,897)	(22,578)
Provision for income taxes	555	170	871	856
Net loss	(7,857)	(8,876)	(26,768)	(23,434)
Net loss attributable to non-controlling interest	(425)	(509)	(1,081)	(978)
Adjustment attributable to non-controlling interest	1,319	839	4,239	893
Net loss attributable to BlackLine, Inc.	$ (8,751)	$ (9,206)	$ (29,926)	$ (23,349)
Basic net loss per share attributable to BlackLine, Inc.	$ (0.15)	$ (0.17)	$ (0.53)	$ (0.42)
Shares used to calculate basic net loss per share	57,063	55,480	56,619	55,164
Diluted net loss per share attributable to BlackLine, Inc.	$ (0.15)	$ (0.17)	$ (0.53)	$ (0.42)
Shares used to calculate diluted net loss per share	57,063	55,480	56,619	55,164

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

BLACKLINE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)

(in thousands)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net loss	$ (7,857)	$ (8,876)	$ (26,768)	$ (23,434)
Other comprehensive income (loss):				
Net change in unrealized gains (losses) on marketable securities, net of tax of $0 for the quarters and nine months ended September 30, 2020 and 2019	(419)	(23)	126	213
Foreign currency translation	88	10	130	308
Other comprehensive income (loss)	(331)	(13)	256	521
Comprehensive loss	(8,188)	(8,889)	(26,512)	(22,913)
Less comprehensive loss attributable to redeemable non-controlling interest:				
Net loss attributable to redeemable non-controlling interest	(425)	(509)	(1,081)	(978)
Foreign currency translation attributable to redeemable non-controlling interest	44	5	65	151
Comprehensive loss attributable to redeemable non-controlling interest	(381)	(504)	(1,016)	(827)
Comprehensive loss attributable to BlackLine, Inc.	$ (7,807)	$ (8,385)	$ (25,496)	$ (22,086)

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

BLACKLINE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

(in thousands)

	Quarter Ended September 30, 2020					
	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Capital	Income (Loss)	Deficit	Total
Balance at June 30, 2020	56,855	$ 569	$ 590,119	$ 943	$ (181,853)	$ 409,778
Stock option exercises	296	3	3,867	—	—	3,870
Vesting of restricted stock units	104	1	—	—	—	1
Acquisition of common stock for tax withholding obligations	—	—	(1,272)	—	—	(1,272)
Stock-based compensation	—	—	13,683	—	—	13,683
Other comprehensive loss	—	—	—	(375)	—	(375)
Net loss attributable to BlackLine, Inc., including adjustment to redeemable non-controlling interest	—	—	(1,319)	—	(7,432)	(8,751)
Balance at September 30, 2020	57,255	$ 573	$ 605,078	$ 568	$ (189,285)	$ 416,934

	Nine Months Ended September 30, 2020					
	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Capital	Income	Deficit	Total
Balance at December 31, 2019	55,931	$ 559	$ 561,275	$ 377	$ (163,598)	$ 398,613
Stock option exercises	789	9	14,274	—	—	14,283
Vesting of restricted stock units	450	4	—	—	—	4
Issuance of common stock through employee stock purchase plan	85	1	3,607	—	—	3,608
Acquisition of common stock for tax withholding obligations	—	—	(6,128)	—	—	(6,128)
Stock-based compensation	—	—	36,289	—	—	36,289
Other comprehensive income	—	—	—	191	—	191
Net loss attributable to BlackLine, Inc., including adjustment to redeemable non-controlling interest	—	—	(4,239)	—	(25,687)	(29,926)
Balance at September 30, 2020	57,255	$ 573	$ 605,078	$ 568	$ (189,285)	$ 416,934

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

BLACKLINE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (cont.) (UNAUDITED)

(in thousands)

	Quarter Ended September 30, 2019					
	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Capital	Income	Deficit	Total
Balance at June 30, 2019	55,307	$ 553	$ 470,681	$ 299	$ (146,985)	$ 324,548
Stock option exercises	247	2	3,803	—	—	3,805
Vesting of restricted stock units	77	1	—	—	—	1
Acquisition of common stock for tax withholding obligations	—	—	(784)	—	—	(784)
Stock-based compensation	—	—	10,260	—	—	10,260
Other comprehensive income	—	—	—	116	—	116
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	—	—	(839)	—	(8,367)	(9,206)
Balance at September 30, 2019	55,631	$ 556	$ 548,201	$ 415	$ (155,352)	$ 393,820

	Nine Months Ended September 30, 2019					
	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	
	Shares	Amount	Capital	Income	Deficit	Total
Balance at December 31, 2018	54,683	$ 547	$ 451,571	$ 45	$ (132,896)	$ 319,267
Stock option exercises	535	4	8,363	—	—	8,367
Vesting of restricted stock units	339	4	—	—	—	4
Issuance of common stock through employee stock purchase plan	74	1	2,551	—	—	2,552
Acquisition of common stock for tax withholding obligations	—	—	(3,372)	—	—	(3,372)
Stock-based compensation	—	—	24,901	—	—	24,901
Other comprehensive income	—	—	—	370	—	370
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	—	—	(893)	—	(22,456)	(23,349)
Balance at September 30, 2019	55,631	$ 556	$ 548,201	$ 415	$ (155,352)	$ 393,820

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

BLACKLINE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities		
Net loss attributable to BlackLine, Inc.	$ (29,926)	$ (23,349)
Net loss and adjustment attributable to redeemable non-controlling interest (Note 3)	3,158	(85)
Net loss	(26,768)	(23,434)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	14,615	16,803
Change in fair value of contingent consideration	(148)	313
Amortization of debt discount and issuance costs	16,874	2,923
Stock-based compensation	35,398	24,605
Noncash lease expense	3,557	3,677
Accretion of purchase discounts on marketable securities, net	(333)	(873)
Net foreign currency (gains) losses	(275)	138
Deferred income taxes	179	737
Provision for doubtful accounts receivable	373	157
Changes in operating assets and liabilities:		
Accounts receivable	11,557	(7,455)
Prepaid expenses and other current assets	(3,143)	3,129
Other assets	(5,684)	(9,647)
Accounts payable	(4,569)	(1,591)
Accrued expenses and other current liabilities	(1,032)	1,044
Deferred revenue	3,056	14,971
Operating lease liabilities	(3,734)	(3,997)
Net cash provided by operating activities	39,923	21,500
Cash flows from investing activities		
Purchases of marketable securities	(116,400)	(93,259)
Proceeds from maturities of marketable securities	460,982	95,138
Proceeds from sales of marketable securities	25,959	17,279
Capitalized software development costs	(7,838)	(3,751)
Purchases of property and equipment	(2,515)	(3,461)
Cash paid for pending acquisition	(121,433)	—
Purchases of intangible assets	(2,333)	—
Net cash provided by investing activities	236,422	11,946
Cash flows from financing activities		
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	14,287	8,371
Proceeds from employee stock purchase plan	3,608	2,552
Acquisition of common stock for tax withholding obligations	(6,128)	(3,372)
Financed purchases of property and equipment	(394)	(314)
Net cash provided by financing activities	11,373	448,250
Effect of foreign currency exchange rate changes on cash, cash equivalents, and restricted cash	130	308
Net increase in cash, cash equivalents, and restricted cash	287,848	482,004
Cash, cash equivalents, and restricted cash, beginning of period	120,502	46,455
Cash, cash equivalents, and restricted cash, end of period	$ 408,350	$ 528,459
Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets		
Cash and cash equivalents at end of period	$ 408,070	$ 528,197
Restricted cash included within prepaid expenses and other current assets at end of period	19	19
Restricted cash included within other assets at end of period	261	243
Total cash, cash equivalents, and restricted cash at end of period shown in the consolidated statements of cash flows	$ 408,350	$ 528,459

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

BLACKLINE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

SUPPLEMENTAL CASH FLOWS DISCLOSURE

(in thousands)

	Nine Months Ended September 30,	
	2020	2019
Non-cash financing and investing activities		
Stock-based compensation capitalized for software development	$ 891	$ 296
Capitalized software development costs included in accounts payable and accrued expenses and other current liabilities at end of period	$ 461	$ 182
Purchases of property and equipment included in accounts payable and accrued expenses and other current liabilities at end of period	$ 808	$ 360
Leased assets obtained in exchange for new operating lease liabilities	$ 282	$ 2,195

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

BLACKLINE, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Company Overview

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 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 – Basis of Presentation, Significant Accounting Policies and Recently-Issued Accounting Pronouncements

The accompanying condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the Securities and Exchange Commission ("SEC") on February 27, 2020. The condensed consolidated financial statements are unaudited and have been prepared on a basis consistent with that used to prepare the audited annual consolidated financial statements and include, in the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair statement of the condensed consolidated financial statements. The condensed consolidated balance sheet at December 31, 2019 was derived from audited financial statements, but does not include all disclosures required by GAAP. The operating results for the quarter and nine months ended September 30, 2020 are not necessarily indicative of the results expected for the full year ending December 31, 2020.

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.

The extent to which COVID-19 impacts the Company's business and financial results will depend on numerous continuously evolving factors including, but not limited to, the magnitude and duration of COVID-19, including resurgences; the impact on the Company's employees; the extent to which it will impact worldwide macroeconomic conditions, including interest rates, employment rates, and health insurance coverage; the speed and degree of the anticipated recovery, as well as variability in such recovery across different geographies, industries, and markets; and governmental and business reactions to the pandemic. The Company assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to the Company and the unknown future impacts of COVID-19 at September 30, 2020 and through the date of this report. The accounting matters assessed included, but were not limited to, the Company's allowance for doubtful accounts and credit losses, and the carrying value of goodwill and other long-lived assets. While there was not a material impact to the Company's consolidated financial statements at and for the quarter and nine months ended September 30, 2020, the Company's future assessment of the magnitude and duration of COVID-19, as well as other factors could result in material impacts to the Company's consolidated financial statements in future reporting periods.

Significant accounting policies

The Company's significant accounting policies are detailed in "Note 2: Summary of Significant Accounting Policies" of the Company's Annual Report on Form 10-K for the year ended December 31, 2019. Except as noted below, there have been no material changes to the Company's significant accounting policies.

Investments in Marketable Securities

The Company periodically assesses its portfolio of marketable securities for impairment. For debt securities in an unrealized loss position, this assessment first takes into account the Company's intent to sell, or whether it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of these criteria are met, the debt security's amortized cost basis is written down to fair value through other income (expense), net.

For debt securities in an unrealized loss position that do not meet the aforementioned criteria, the Company assesses whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss may exist, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses will be recorded through other income (expense), net, limited by the amount that the fair value is less than the amortized cost basis. Any additional impairment not recorded through an allowance for credit losses is recognized in accumulated other comprehensive loss in the condensed consolidated statements of stockholders' equity.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when the Company believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. The Company has not recorded any credit losses for the quarter and nine months ended September 30, 2020. The Company has not recorded any impairment charges for unrealized losses in the periods presented.

Accounts Receivable and Allowances

Accounts receivable are recorded and carried at the original invoiced amount less an allowance for any potential uncollectible amounts. The Company makes estimates of expected credit losses for the allowance for doubtful accounts and allowance for cancellations and credits based upon its assessment of various factors, including historical experience, the age of the accounts receivable balances, credit quality of its customers, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from customers. The estimated credit loss allowance for doubtful accounts is recorded as general and administrative expenses, while the estimated credit loss allowance for cancellations and credits is recorded as a reduction in revenue on the condensed consolidated statements of operations.

Revision of Previously-Issued Financial Statements

As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, 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. Although the Company assessed the materiality of the errors and determined the amounts were not material to previously-issued financial statements, the Company did revise its previously-issued 2018 and 2017 annual financial statements to correct for such tax error, as well as certain prior period immaterial disclosure errors, in connection with the filing of its 2019 Annual Report on Form 10-K, and disclosed that it would be revising its 2019 consolidated interim financial statements in connection with the Company's 2020 Form 10-Q filings. In connection with the filing of this Quarterly Report on Form 10-Q, the Company has revised the accompanying consolidated condensed interim financial statements for the quarter and nine months ended September 30, 2019 to correct for the impact of such errors, which originated in periods prior to 2019. The accompanying footnotes have also been corrected to reflect the impact of the revisions of the previously-filed consolidated interim financial statements.

The following tables present the effect of the revision for the financial statement line items adjusted in the affected periods.

Condensed Consolidated Statements of Operations

	Quarter Ended September 30, 2019		
	As Previously Reported	Adjustments	As Revised
	(in thousands, except per share data)		
Provision for income taxes	$ 206	$ (36)	$ 170
Net loss	$ (8,912)	$ 36	$ (8,876)
Net loss attributable to BlackLine, Inc.	$ (9,242)	$ 36	$ (9,206)
Basic net loss per share attributable to BlackLine, Inc.	$ (0.17)	$ —	$ (0.17)
Diluted net loss per share attributable to BlackLine, Inc.	$ (0.17)	$ —	$ (0.17)

	Nine Months Ended September 30, 2019		
	As Previously Reported	Adjustments	As Revised
	(in thousands, except per share data)		
Provision for income taxes	$ 557	$ 299	$ 856
Net loss	$ (23,135)	$ (299)	$ (23,434)
Net loss attributable to BlackLine, Inc.	$ (23,050)	$ (299)	$ (23,349)
Basic net loss per share attributable to BlackLine, Inc.	$ (0.42)	$ —	$ (0.42)
Diluted net loss per share attributable to BlackLine, Inc.	$ (0.42)	$ —	$ (0.42)

Condensed Consolidated Statements of Comprehensive Loss

	Quarter Ended September 30, 2019		
	As Previously Reported	Adjustments	As Revised
	(in thousands)		
Net loss	$ (8,912)	$ 36	$ (8,876)
Comprehensive loss	$ (8,925)	$ 36	$ (8,889)
Comprehensive loss attributable to BlackLine, Inc.	$ (8,421)	$ 36	$ (8,385)

	Nine Months Ended September 30, 2019		
	As Previously Reported	Adjustments	As Revised
	(in thousands)		
Net loss	$ (23,135)	$ (299)	$ (23,434)
Comprehensive loss	$ (22,614)	$ (299)	$ (22,913)
Comprehensive loss attributable to BlackLine, Inc.	$ (21,787)	$ (299)	$ (22,086)

Condensed Consolidated Statements of Stockholders' Equity

	Quarter Ended September 30, 2019		
	As Previously Reported	Adjustments	As Revised
Accumulated Deficit	(in thousands)		
Balance at June 30, 2019	$ (144,348)	$ (2,637)	$ (146,985)
Net loss attributable to BlackLine, Inc., including adjustment to redeemable non-controlling interest	$ (8,403)	$ 36	$ (8,367)
Balance at September 30, 2019	$ (152,751)	$ (2,601)	$ (155,352)
Total Equity			
Balance at June 30, 2019	$ 327,185	$ (2,637)	$ 324,548
Net loss attributable to BlackLine, Inc., including adjustment to redeemable non-controlling interest	$ (9,242)	$ 36	$ (9,206)
Balance at September 30, 2019	$ 396,421	$ (2,601)	$ 393,820

Accumulated Deficit	Nine Months Ended September 30, 2019		
	As Previously Reported	Adjustments	As Revised
		(in thousands)	
Balance at December 31, 2018	$ (130,594)	$ (2,302)	$ (132,896)
Net loss attributable to BlackLine, Inc., including adjustment to redeemable non-controlling interest	$ (22,157)	$ (299)	$ (22,456)
Balance at September 30, 2019	$ (152,751)	$ (2,601)	$ (155,352)
Total Equity			
Balance at December 31, 2018	$ 321,569	$ (2,302)	$ 319,267
Net loss attributable to BlackLine, Inc., including adjustment to redeemable non-controlling interest	$ (23,050)	$ (299)	$ (23,349)
Balance at September 30, 2019	$ 396,421	$ (2,601)	$ 393,820

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2019		
	As Previously Reported	Adjustments	As Revised
		(in thousands)	
Net loss attributable to BlackLine, Inc.	$ (23,050)	$ (299)	$ (23,349)
Net loss	$ (23,135)	$ (299)	$ (23,434)
Deferred income taxes	$ 35	$ 702	$ 737
Accrued expenses and other current liabilities	$ 1,447	$ (403)	$ 1,044

Recently-issued accounting pronouncements not yet adopted

In March 2020, the Financial Accounting Standards Board ("FASB") issued guidance, which provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying generally accepted accounting principles to transactions affected by reference rate reform if certain criteria are met. These transactions include contract modifications, hedging relationships, and sale or transfer of debt securities classified as held-to-maturity. Entities may apply the provisions of the new standard as of the beginning of the reporting period when the election is made (i.e., as early as the first quarter of 2020). Unlike other topics, the provisions of this update are only available until December 31, 2022, when the reference rate replacement activity is expected to be completed. The Company has not adopted the provisions of the new standard and does not expect it to have a material impact on the Company's condensed consolidated financial statements.

In June 2020, the FASB issued ASU No. 2020-06, *Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*. This standard eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. It also amends the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, the new guidance modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted EPS computation. For public business entities, it is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years using the fully retrospective or modified retrospective method. Early adoption is permitted but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company is currently evaluating the potential impact of this standard on its condensed consolidated financial statements.

Recently adopted accounting pronouncements

In May 2020, the Securities Exchange Commission ("SEC") issued a final rule that amended the disclosure requirements applicable to acquisitions and dispositions of businesses. The changes include: updating the tests used to determine significance and expanding the use of pro forma financial information when measuring significance; conforming the significance threshold and tests for a disposed business to those used for an acquired business; permitting abbreviated financial statements for certain acquisitions of a component of an entity; revising the pro forma financial information requirements; reducing the maximum number of years for which financial statements under Regulation S-X Rule 3-05 are required to two years; and modifying the disclosure requirements

relating to the aggregate effect of acquisitions for which financial statements are not (or not yet) required. The amendments are intended to improve the financial information about acquired or disposed businesses provided to investors, facilitate more timely access to capital, and reduce the complexity and costs to prepare the disclosures. The Company early adopted this rule in the quarter ended June 30, 2020, and the adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

In June 2016, the FASB issued Accounting Standard Update ("ASU") 2016-13*, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 replaced the incurred loss impairment methodology under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 requires use of a forward-looking expected credit loss model for accounts receivables, loans, and other financial instruments. Adoption of the standard requires using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date to align existing credit loss methodology with the new standard. In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*. ASU 2019-11 requires entities that did not adopt the amendments in ASU 2016-13 as of November 2019 to adopt ASU 2019-11. This ASU contains the same effective dates and transition requirements as ASU 2016-13. The Company adopted this guidance effective January 1, 2020, and the adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

In August 2018, the FASB issued guidance which modifies the disclosure requirements of 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 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 adopted this guidance effective January 1, 2020, and the adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

Note 3 – 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 condensed 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 following table summarizes the activity in the redeemable non-controlling interest for the periods indicated below:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Balance at beginning of period	$ 7,190	$ 4,118	$ 4,905	$ 4,387
Net loss attributable to redeemable non-controlling interest (excluding adjustment to non-controlling interest)	(425)	(509)	(1,081)	(978)
Foreign currency translation	44	5	65	151
Adjustment to redeemable non-controlling interest	1,319	839	4,239	893
Balance at end of period	$ 8,128	$ 4,453	$ 8,128	$ 4,453

During the third quarter of 2020, the Company identified that, commencing in 2019, it had incorrectly calculated its quarterly adjustment to the carrying value of its redeemable non-controlling interest, which resulted in an overstatement of the adjustment attributable to non-controlling interest in its consolidated statement of operations totaling $0.4 million for the quarter and nine months ended September 30, 2019; $0.5 million and $0.9 million for the quarter and year ended December 31, 2019; $1.2 million for the quarter ended March 31, 2020; and $0.6 million for the six months ended June 30, 2020, as well as an understatement of the adjustment attributable to non-controlling interest in its consolidated statement of operations totaling $0.6 million for the quarter ended June 30, 2020. At December 31, 2019, the carrying value of the redeemable non-controlling interest in the Company's consolidated balance sheet was overstated by $0.9 million. The Company corrected the $1.5 million cumulative prior-period error in the quarter ended September 30, 2020 to correctly state the carrying value of the redeemable non-controlling interest in its consolidated balance sheet.

Note 4 – Balance Sheet Components

Investments in Marketable Securities

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

	September 30, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Marketable securities				
U.S. treasury securities	$ 4,504	$ 6	$ —	$ 4,510
Corporate bonds	110,104	255	(24)	110,335
Commercial paper	2,588	—	—	2,588
	$ 117,196	$ 261	$ (24)	$ 117,433

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(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
	$ 487,404	$ 130	$ (19)	$ 487,515

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 unaudited condensed consolidated statements of operations were $(0.3) million and $0.3 million for the quarter and nine

months ended September 30, 2020, 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 unaudited condensed consolidated statements of operations were $0.1 million and $0.7 million for the quarter and nine months ended September 30, 2019, respectively. Net gains and losses are determined using the specific identification method. During the quarters ended September 30, 2020 and 2019, there were no material realized gains or losses related to sales of marketable securities recognized in the Company's unaudited condensed consolidated statements of operations. During the nine months ended September 30, 2020, there were $0.1 million of realized losses related to the sale of one marketable security recognized in the Company's unaudited condensed consolidated statements of operations. During the nine months ended September 30, 2019, there were no material realized gains or losses related to sales of marketable securities recognized in the Company's unaudited condensed consolidated statements of operations.

Marketable securities in a continuous loss position for less than 12 months had an estimated fair value of $17.0 million and an immaterial amount of unrealized losses at September 30, 2020, and an estimated fair value of $83.9 million and an immaterial amount of unrealized losses at December 31, 2019. At September 30, 2020, there were no marketable securities in a continuous loss position for greater than 12 months.

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

	September 30, 2020	
	Amortized Cost	Fair Value
	(in thousands)	
Maturing within 1 year	$ 117,196	$ 117,433

Prepaid Expenses and Other Current Assets

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

	September 30, 2020	December 31, 2019
Cash paid for pending acquisition	$ 121,433	$ —
Partner referral fees	702	833
Other prepaid expenses and other current assets	15,222	11,997
	$ 137,357	$ 12,830

Other Assets

Other assets consisted of the following (in thousands):

	September 30, 2020	December 31, 2019
Deferred customer contract acquisition costs	$ 54,791	$ 49,709
Restricted cash	261	250
Capitalized software implementation costs	2,002	1,237
Other assets	1,524	1,687
	$ 58,578	$ 52,883

Accrued Expenses and Other Current Liabilities

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

	September 30, 2020	December 31, 2019
Accrued salaries and employee benefits	$ 20,769	$ 20,775
Accrued income and other taxes payable	2,919	4,198
Other accrued expenses and current liabilities	5,858	5,125
	$ 29,546	$ 30,098

Note 5 – 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):

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	$ 362,689	$ —	$ —	$ 362,689
Marketable securities				
U.S. treasury securities	4,510	—	—	4,510
Corporate bonds	—	110,335	—	110,335
Commercial paper	—	2,588	—	2,588
Total assets	$ 367,199	$ 112,923	$ —	$ 480,122
Liabilities				
Contingent consideration	$ —	$ —	$ 6,214	$ 6,214
Total liabilities	$ —	$ —	$ 6,214	$ 6,214

	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

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Beginning fair value	$ 6,286	$ 6,500	$ 6,362	$ 6,316
Change in fair value	(72)	129	(148)	313
Ending fair value	$ 6,214	$ 6,629	$ 6,214	$ 6,629

The fair value of contingent consideration is determined 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 the 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.

Note 6 – Convertible Senior Notes

On August 13, 2019, the Company issued 0.125% Convertible Senior Notes (the “Notes”) due in 2024 for aggregate gross proceeds of $500.0 million, which includes the initial purchasers’ option of $65.0 million aggregate principal amount, 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”).

The Notes consisted of the following (in thousands):

	September 30, 2020
Liability:	
Principal	$ 500,000
Unamortized debt discount and issuance costs	(98,783)
Net carrying amount	$ 401,217
Carrying amount of the equity component	$ 111,230

The Company carries the Notes at face value less unamortized discount and issuance costs on its condensed 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 September 30, 2020 was approximately $692.8 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 quarter ended September 30, 2020, the Company recognized $5.8 million of interest expense related to the amortization of debt discount and issuance costs and $0.2 million of coupon interest expense. During the nine months ended September 30, 2020, the Company recognized $16.9 million of interest expense related to the amortization of debt discount and issuance costs and $0.5 million of coupon interest expense. During the quarter and nine months ended September 30, 2019, the Company recognized $2.9 million of interest expense related to the amortization of debt discount and issuance costs and $0.1 million of coupon interest expense.

At September 30, 2020, the remaining life of the Notes was approximately 46 months.

The Notes were not convertible at September 30, 2020.

Note 7 – Commitments and Contingencies

Contingent consideration—On September 3, 2013, BlackLine Systems, Inc. was acquired by BlackLine, Inc. (the “2013 Acquisition”). 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 $6.2 million and $6.4 million at September 30, 2020 and December 31, 2019, respectively.

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 September 30, 2020 and December 31, 2019, the Company 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 was not probable or reasonably estimable.

Note 8 – Equity Awards

Stock-based compensation expense

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cost of revenues	$ 1,871	$ 1,431	$ 4,900	$ 3,478
Sales and marketing	5,675	4,522	15,645	11,074
Research and development	1,954	1,452	4,918	3,631
General and administrative	3,826	2,736	9,935	6,422
	$ 13,326	$ 10,141	$ 35,398	$ 24,605

For the quarters ended September 30, 2020 and 2019, stock-based compensation capitalized as an asset was $0.4 million and $0.1 million, respectively. For the nine months ended September 30, 2020 and 2019, stock-based compensation capitalized as an asset was $0.9 million and $0.3 million, respectively.

Stock options

The following table summarizes activity for awards that contain service-only vesting conditions (in thousands):

Outstanding at December 31, 2019	3,486
Granted	578
Exercised	(804)
Forfeited/canceled	(44)
Outstanding at September 30, 2020	3,216

Restricted stock units

The following table summarizes activity for restricted stock units (in thousands):

Nonvested at December 31, 2019	1,654
Granted	1,053
Vested	(533)
Forfeited/canceled	(85)
Nonvested at September 30, 2020	2,089

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 officers that vest upon meeting certain performance conditions and continued service. The performance conditions included meeting yearly cash flow targets and cumulative annual recurring revenue targets through 2019. If each yearly cash flow target was met through 2019, but the full cumulative annual recurring target through 2019 was 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 each year are determined concurrently with the annual budget process. 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 million. At September 30, 2020, 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. On July 1, 2020, 200,000 stock options with performance conditions were canceled upon the change in the employment status of one of the officers.

Note 9 – Unearned Revenue and Performance Obligations

Revenue totaling $147.5 million and $117.8 million was recognized during the nine months ended September 30, 2020 and 2019, respectively, that was previously included in the deferred revenue balance at December 31, 2019 and 2018, respectively.

Contracted not recognized revenue was $411.3 million at September 30, 2020, of which the Company expects to recognize approximately 59% over the next 12 months and the remainder thereafter.

Note 10 – Income Taxes

In determining quarterly provisions for income taxes, the Company uses the annual estimated effective tax rate applied to the actual year-to-date loss, adjusted for discrete items arising in that quarter. The Company's annual estimated effective tax rate differs from the U.S. federal statutory rate of 21% primarily as a result of state taxes, foreign taxes, and changes in the Company's valuation allowance for domestic income taxes. For the quarters ended September 30, 2020 and 2019, the Company recorded $0.6 million and $0.2 million in income tax expense, respectively. For the nine months ended September 30, 2020 and 2019, the Company recorded $0.9 million and $0.9 million in income tax expense, respectively. The increase in income tax expense for the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019, resulted primarily from changes in the mix of profitable foreign jurisdictions and higher foreign withholding taxes. Income tax expense for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, remained relatively flat. For the quarters and nine months ended September 30, 2020 and 2019, the Company maintained a full valuation allowance on its 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.

Note 11 – 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):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net loss attributable to BlackLine, Inc.	$ (8,751)	$ (9,206)	$ (29,926)	$ (23,349)
Denominator:				
Weighted average shares	57,063	55,480	56,619	55,164
Add: Dilutive effect of securities	—	—	—	—
Shares used to calculate diluted net loss per share	57,063	55,480	56,619	55,164
Basic net loss per share attributable to BlackLine, Inc.	$ (0.15)	$ (0.17)	$ (0.53)	$ (0.42)
Diluted net loss per share attributable to BlackLine, Inc.	$ (0.15)	$ (0.17)	$ (0.53)	$ (0.42)

As further described in Note 3, during the third quarter of 2020, the Company identified that, commencing in 2019, it had incorrectly calculated its quarterly adjustment to the carrying value of its redeemable non-controlling interest in its consolidated balance sheet, with a corresponding impact to net loss attributable to BlackLine, Inc., as well as basic and diluted net loss per share attributable to BlackLine, Inc. in its consolidated statement of operations. Such errors resulted in a $0.4 million ($0.01 per basic and diluted share) overstatement of net loss attributable to BlackLine, Inc. for the quarter and nine months ended September 30, 2019. The Company corrected for the cumulative impact of its prior-period errors during the third quarter of 2020, which resulted in a reduction of

its net loss attributable to BlackLine, Inc. of $1.5 million ($0.03 per basic and diluted share) and $0.9 million($0.02 per basic and diluted share) for the quarter and nine months ended September 30, 2020, respectively.

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 (in thousands):

	Nine Months Ended September 30,	
	2020	2019
Stock options with service-only vesting conditions	3,216	3,696
Stock options with performance conditions	483	683
Restricted stock units	2,089	1,692
Total shares excluded from net loss per share	5,788	6,071

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 nine months ended September 30, 2020, 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 12 – Geographic Information

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):

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
United States	$ 68,058	$ 58,588	$ 192,784	$ 162,487
International	22,099	16,337	63,243	46,231
	$ 90,157	$ 74,925	$ 256,027	$ 208,718

Note 13 – Subsequent Events

On October 2, 2020, the Company completed the acquisition (the "Rimilia Acquisition") of Rimilia Holdings Ltd. for consideration of $150 million in cash (subject to working capital adjustments), of which $120 million was payable at the closing of the acquisition with additional cash payments of up to $30 million payable upon certain earnout conditions being met. The Company funded the Rimilia Acquisition on September 30, 2020, in advance of the closing. The acquisition expands the Company's capabilities into an adjacent area, adding accounts receivable automation to financial close automation and accelerating the Company's larger, long-term plan for transforming and modernizing Finance and Accounting. Due to the limited time since the acquisition date, the initial accounting for the business combination is incomplete. As a result, the Company is unable to provide the amounts recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed.

On September 30, 2020, the Compensation Committee of the Board of Directors of BlackLine, Inc. approved restricted stock unit grants, to become effective upon the close of the Rimilia Acquisition, which closed on October 2, 2020, to newly acquired 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-half of the total number of units awarded on the first anniversary of November 20, 2020 and one-half of the total number of units awarded on the second anniversary of November 20, 2020.

On October 30, 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 November 20, 2020 and quarterly thereafter for 12 consecutive quarters.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with the financial statements and related notes that are included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 filed with the U.S. Securities and Exchange Commission (the "SEC") on February 27, 2020 ("Annual Report on Form 10-K"). This discussion contains forward-looking statements based upon current plans, expectations and beliefs that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those discussed in the section entitled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.

The consolidated financial statements for the quarter and nine months ended September 30, 2019 have been revised to correct for prior period errors as discussed in Item 1 — Note 2, "Basis of Presentation, Significant Accounting Policies and Recently-Issued Accounting Pronouncements". Accordingly, this Management's Discussion and Analysis of Financial Condition and Results of Operations reflects 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 September 30, 2020, we had 282,579 individual users across 3,226 customers. 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 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.

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 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 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 solutions, as an SAP solution-extension ("SolEx"), for which we receive a percentage of the revenues.

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 quarters ended September 30, 2020 and 2019, we had revenues totaling $90.2 million and $74.9 million, respectively, and we incurred net losses attributable to BlackLine, Inc. of $8.8 million and $9.2 million, respectively. For the nine months ended September 30, 2020 and 2019, we had revenues totaling $256.0 million and $208.7 million, respectively, and we incurred net losses attributable to BlackLine, Inc. of $29.9 million and $23.3 million, respectively.

COVID-19 Update

In December 2019, the emergence of a novel coronavirus, or COVID-19, was reported and in March 2020, the World Health Organization, or WHO, characterized COVID-19 as a pandemic. We responded to the pandemic by creating an executive task force to monitor the COVID-19 situation daily, immediately restricted non-essential travel and enabled work-from-home protocols. Shortly thereafter, and in line with guidance provided by government agencies and international organizations, we restricted all travel, mandated a work-from-home policy across our global workforce, and moved all in-person customer-facing events to virtual ones. We expect these restrictions to stay in effect during the fourth quarter of 2020. We also responded with COVID-19 customer-relief programs to help our community of global accounting and finance professionals in these challenging times. We have offered free access to our entire training library. We also offered the Task Management and Reporting modules complimentary for six months to existing customers to enable a more effective remote close. In addition, we announced complimentary coaching sessions with our existing customers.

We have continued to see purchasing decisions being deferred due to COVID-19 and an impact on new business pipeline and large deals. Moreover, we expect delays in deals in EMEA and North America mid-market, as well as large digital transformation deals. We further expect delays in deals arising out of our SAP partnership, all which will impact our customers and prospects, and our financial results for fiscal 2020. We have also seen a decrease in travel-related expenses and advertising and trade show expenses.

The broader implications of the global emergence of COVID-19 on our business, operating results, and overall financial performance remain uncertain and depend on certain developments, including the duration and spread of the outbreak, impact on our customers and our sales cycles, impact on our partners and employees, and impact on the economic environment and financial markets, all of which are uncertain and cannot be predicted. We are conducting business as usual with certain limitations to employee travel, employee work locations, and marketing events, among other modifications. We have observed other companies taking precautionary and preemptive actions to address COVID-19, and the effects it has had and is expected to have on business and the economy. During the nine months ended September 30, 2020, we have seen certain new and existing customers halt or decrease investment in infrastructure, and we expect that certain of our current and potential customers will take actions to reduce operating expenses and moderate cash flows, including by delaying sales and requesting extended billing and payment terms. The risk of a cybersecurity incident occurring has increased as more companies and individuals are working remotely and through a less secure network connection. As a result, we have increased our investments in network security to help mitigate against such an incident. We cannot provide assurances that our preventative efforts will be successful. We will continue to actively monitor the situation and may take further actions that alter our business operations, as may be required by federal, state, or local authorities, or that we determine are in the best interests of our employees, customers, partners, suppliers, and stockholders.

Acquisition of Rimilia

On October 2, 2020, we completed the acquisition (the “Rimilia Acquisition”) of Rimilia Holdings Ltd. (“Rimilia”) for consideration of $150 million in cash (subject to working capital adjustments), of which $120 million was payable at the closing of the acquisition with additional cash payments of up to $30 million payable upon certain earnout conditions being met. We the funded the Rimilia Acquisition on September 30, 2020, in advance of the closing.The acquisition expands our capabilities into an adjacent area, adding accounts receivable automation to financial close automation and accelerating our larger, long-term plan for transforming and modernizing Finance and Accounting.

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.

	Sep 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020
Dollar-based net revenue retention rate	109 %	110 %	110 %	108 %	107 %
Number of customers	2,871	3,024	3,056	3,138	3,226
Number of users	244,515	267,621	271,957	277,426	282,579

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. At September 30, 2020, our dollar-based net revenue retention rate declined primarily due to lower net growth in existing customer accounts as a result of reduced technology spending by our existing customers due to the financial challenges caused by COVID-19. 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 quarters and nine months ended September 30, 2020 and 2019, 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 organizations, 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. As our sales of non-user based products grow, user count will become less of an indicator of our business growth.

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.

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands, except percentages)		(in thousands, except percentages)	
GAAP gross profit	$ 73,175	$ 59,633	$ 206,237	$ 164,864
GAAP gross margin	81.2 %	79.6 %	80.6 %	79.0 %
GAAP net loss attributable to BlackLine, Inc.	$ (8,751)	$ (9,206)	$ (29,926)	$ (23,349)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands, except percentages)		(in thousands, except percentages)	
Non-GAAP gross profit	$ 75,222	$ 62,263	$ 211,664	$ 172,964
Non-GAAP gross margin	83.4 %	83.1 %	82.7 %	82.9 %
Non-GAAP net income attributable to BlackLine, Inc.	$ 15,027	$ 7,065	$ 32,961	$ 13,974

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, amortization of purchased intangible assets, stock-based compensation, the amortization of debt discount and issuance costs from our convertible notes (the “Notes”), the change in the fair value of contingent consideration, acquisition-related costs related to the Rimilia Acquisition, legal settlement gains, shelf offering costs, and the adjustment to the value of the redeemable non-controlling interest to the redemption amount. We believe that presenting non-GAAP net income is useful to investors as it eliminates the impact of items that have been affected by the 2013 Acquisition and the Runbook Acquisition, certain non-cash expenses, and other costs related to non-recurring non-operating events in order to allow a direct comparison of net loss between current and future 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:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)		(in thousands)	
Non-GAAP Gross Profit:				
Gross profit	$ 73,175	$ 59,633	$ 206,237	$ 164,864
Amortization of developed technology	176	1,199	527	4,622
Stock-based compensation expense	1,871	1,431	4,900	3,478
Total non-GAAP gross profit	$ 75,222	$ 62,263	$ 211,664	$ 172,964
Gross margin	81.2 %	79.6 %	80.6 %	79.0 %
Non-GAAP gross margin	83.4 %	83.1 %	82.7 %	82.9 %
Non-GAAP Net Income Attributable to BlackLine, Inc.:				
Net loss attributable to BlackLine, Inc.	$ (8,751)	$ (9,206)	$ (29,926)	$ (23,349)
Provision for (benefit from) income taxes	35	53	(53)	35
Amortization of intangible assets	1,622	2,566	4,787	8,722
Stock-based compensation	13,326	10,141	35,398	24,605
Amortization of debt discount and issuance costs	5,758	2,923	16,874	2,923
Change in fair value of contingent consideration	(72)	129	(148)	313
Acquisition-related costs	1,790	—	1,790	—
Legal settlement gains	—	(380)	—	(380)
Shelf offering costs	—	—	—	212
Adjustment to redeemable non-controlling interest	1,319	839	4,239	893
Total non-GAAP net income attributable to BlackLine, Inc.	$ 15,027	$ 7,065	$ 32,961	$ 13,974

Results of Operations

The following table sets forth our statements of operations for each of the periods indicated:

The following table presents our consolidated results of operations and reflects the revisions as discussed in Item 1 — Note 2, "Basis of Presentation, Significant Accounting Policies and Recently-Issued Accounting Pronouncements".

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(in thousands)		(in thousands)	
Revenues				
Subscription and support	$ 83,875	$ 70,311	$ 238,777	$ 197,651
Professional services	6,282	4,614	17,250	11,067
Total revenues	90,157	74,925	256,027	208,718
Cost of revenues				
Subscription and support	11,700	11,689	34,708	34,109
Professional services	5,282	3,603	15,082	9,745
Total cost of revenues	16,982	15,292	49,790	43,854
Gross profit	73,175	59,633	206,237	164,864
Operating expenses				
Sales and marketing	42,588	41,848	129,199	114,888
Research and development	14,829	11,558	38,423	32,694
General and administrative	17,794	14,088	51,314	40,444
Total operating expenses	75,211	67,494	218,936	188,026
Loss from operations	(2,036)	(7,861)	(12,699)	(23,162)
Other income (expense)				
Interest income	648	2,161	4,142	3,590
Interest expense	(5,914)	(3,006)	(17,340)	(3,006)
Other income (expense), net	(5,266)	(845)	(13,198)	584
Loss before income taxes	(7,302)	(8,706)	(25,897)	(22,578)
Provision for income taxes	555	170	871	856
Net loss	(7,857)	(8,876)	(26,768)	(23,434)
Net loss attributable to non-controlling interest	(425)	(509)	(1,081)	(978)
Adjustment attributable to non-controlling interest	1,319	839	4,239	893
Net loss attributable to BlackLine, Inc.	$ (8,751)	$ (9,206)	$ (29,926)	$ (23,349)

Comparison of Quarters and Nine Months Ended September 30, 2020 and 2019

Revenues

	Quarter Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	$	%	2020	2019	$	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Subscription and support	$ 83,875	$ 70,311	$ 13,564	19 %	$ 238,777	$ 197,651	$ 41,126	21 %
Professional services	6,282	4,614	1,668	36 %	17,250	11,067	6,183	56 %
Total revenues	$ 90,157	$ 74,925	$ 15,232	20 %	$ 256,027	$ 208,718	$ 47,309	23 %

	September 30,	
	2020	2019
Dollar-based net revenue retention rate	107 %	109 %
Number of customers	3,226	2,871
Number of users	282,579	244,515

The increase in revenues for the quarter and nine months ended September 30, 2020, compared to the quarter and nine months ended September 30, 2019, 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, and an increase in non-user-based strategic product sales. The total number of customers and users at September 30, 2020 increased by 12% and 16%, respectively, as compared to September 30, 2019.

Cost of revenues

	Quarter Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	$	%	2020	2019	$	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Subscription and support	$ 11,700	$ 11,689	$ 11	— %	$ 34,708	$ 34,109	$ 599	2 %
Professional services	5,282	3,603	1,679	47 %	15,082	9,745	5,337	55 %
Total cost of revenues	$ 16,982	$ 15,292	$ 1,690	11 %	$ 49,790	$ 43,854	$ 5,936	14 %
Gross margin	81.2 %	79.6 %			80.6 %	79.0 %		

The increase in cost of revenues for the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019, was primarily due to a $1.6 million increase in salaries, benefits, and stock-based compensation primariliy related to professional services-related headcount; a $0.8 million increase in computer software expenses; and a $0.7 million increase in amortization of developed technology. These increases were partially offset by a $0.9 million decrease in depreciation and amortization and a $0.4 million decrease in travel-related expenses. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 22% increase in average cost of revenues-related headcount from the quarter ended September 30, 2019 to the quarter ended September 30, 2020. The increase in computer software expenses was primarily driven by purchases of additional server licenses, driven by growth in our customer base. Amortization of our capitalized software development costs increased due to larger total capitalized costs as we expanded the functionality of our solutions. Depreciation and amortization expense decreased primarily due to a decrease in amortization related 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 nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, was primarily due to a $7.1 million increase in salaries, benefits, and stock-based compensation, of which $5.2 million was related to professional services-related headcount; a $1.7 million increase in computer software expenses; a $1.3 million increase in amortization of developed technology; and a $0.7 million increase in professional services expense. These increases were partially offset by a $3.6 million decrease in depreciation and amortization; a $1.1 million decrease in travel-related expenses; and a $0.6 million decrease in data center costs. 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 nine months ended September 30, 2019 to the nine months ended September 30, 2020. The increase in computer software expenses was primarily driven by purchases of additional server licenses, driven by growth in our customer base. Amortization of our capitalized software development costs increased due to larger total capitalized costs as we expanded the functionality of our solutions. Depreciation and amortization expense decreased primarily due to a decrease in amortization related to developed technology from the 2013 Acquisition, which became fully amortized in the quarter ended September 30, 2019. Travel-related expenses decreased primarily as a result of travel restrictions due to COVID-19.

Sales and marketing

	Quarter Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	$	%	2020	2019	$	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Sales and marketing	$ 42,588	$ 41,848	$ 740	2 %	$ 129,199	$ 114,888	$ 14,311	12 %
Percentage of total revenues	47.2 %	55.9 %			50.5 %	55.0 %		

The increase in sales and marketing expenses for the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019, was primarily due to a $6.0 million increase in salaries, sales commissions, stock-based compensation, and incentives. This increase was partially offset by a $2.6 million decrease in advertising and trade show expenses; a $2.5 million decrease in travel-related expenses; and a $0.7 million decrease in partner referral fees. The increase in salaries, sales commissions, and incentives was primarily driven by an increase in headcount and increased sales commissions driven by revenue growth. Sales and marketing average headcount increased 17% from the quarter ended September 30, 2019 to the quarter ended September 30, 2020. The decrease in advertising and trade show expenses was primarily a result of restrictions related to live events due to COVID-19. Travel-related expenses decreased primarily as a result of travel restrictions due to COVID-19. 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 nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, was primarily due to a $24.2 million increase in salaries, sales commissions, stock-based compensation, and incentives; a $1.3 million increase in company event-related expenses; a $0.7 million increase in computer software expenses; and a $0.5 million increase in professional services expense. These increases were partially offset by a $5.0 million decrease in travel-related expenses; a $5.0 million decrease in partner referral fees; and a $2.4 million decrease in advertising and trade show expenses. The increase in salaries, sales commissions, and incentives was primarily driven by an increase in headcount and increased sales commissions driven by revenue growth. Our sales and marketing average headcount increased 23% from the nine months ended September 30, 2019 to the nine months ended September 30, 2020. Travel-related expenses decreased primarily as a result of COVID-19 travel restrictions. 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 decrease in advertising and trade show expenses was primarily a result of restrictions related to live events due to COVID-19.

Research and development

	Quarter Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	$	%	2020	2019	$	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Research and development, gross	$ 17,603	$ 12,779	$ 4,824	38 %	$ 46,159	$ 36,270	$ 9,889	27 %
Capitalized internally developed software costs	(2,774)	(1,221)	(1,553)	127 %	(7,736)	(3,576)	(4,160)	116 %
Research and development, net	$ 14,829	$ 11,558	$ 3,271	28 %	$ 38,423	$ 32,694	$ 5,729	18 %
Percentage of total revenues	16.4 %	15.4 %			15.0 %	15.7 %		

The increase in research and development expenses for the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019, was primarily due to a $3.7 million increase in salaries, benefits, and stock-based compensation; a $0.8 million increase in computer software expenses; and a $0.6 million increase in professional services expense. These increases were partially offset by a $1.6 million increase in capitalized software costs, which resulted in a decrease in net expenses. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 30% increase in average headcount from the quarter ended September 30, 2019 to the quarter ended September 30, 2020. Computer software expenses increased due to purchases of

additional software licenses driven by an increase in average research and development headcount. The increase in professional services expense was primarily driven by external consultant fees as part of our investment in products, features, and functionality buildouts. Capitalized software costs increased due to significant new enhancement initiatives related to the functionality of our solutions.

The increase in research and development expenses for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, was primarily due to a $7.8 million increase in salaries, benefits, and stock-based compensation; a $1.3 million increase in professional services expense; and a $1.1 million increase in computer software expenses. These increases were partially offset by a $4.2 million increase in capitalized software costs, which resulted in a decrease in net expenses. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 20% increase in average headcount from the nine months ended September 30, 2019 to the nine months ended September 30, 2020. The increase in professional services expense was primarily driven by external consultant fees as part of our investment in products, features, and functionality buildouts. Computer software expenses increased due to purchases of additional software licenses driven by an increase in average research and development headcount. Capitalized software costs increased due to significant new enhancement initiatives related to the functionality of our solutions.

General and administrative

	Quarter Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	$	%	2020	2019	$	%
	(in thousands, except percentages)				(in thousands, except percentages)			
General and administrative	$ 17,794	$ 14,088	$ 3,706	26 %	$ 51,314	$ 40,444	$ 10,870	27 %
Percentage of total revenues	19.7 %	18.8 %			20.0 %	19.4 %		

The increase in general and administrative expenses for the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019, was primarily due to a $2.5 million increase in salaries, benefits, and stock-based compensation; $1.8 million of acquisition-related costs; and a $0.7 million increase in professional services expense. These increases were partially offset by a $1.4 million increase in foreign currency gains. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 17% increase in average headcount from the quarter ended September 30, 2019 to the quarter ended September 30, 2020. Acquisition-related costs in the period related to the Rimilia Acquisition, which closed in October 2020. The increase in foreign currency gains was primarily due to the impact of foreign currency rates related to the British Pound and Euro during the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019, on net asset balances denominated in foreign currencies.

The increase in general and administrative expenses for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, was primarily due to a $7.0 million increase in salaries, benefits, and stock-based compensation; a $2.3 million increase in professional services expense; and $1.8 million of acquisition-related costs. These increases were partially offset by a $0.5 million decrease in travel-related expenses and a $0.5 million decrease in contingent consideration expense related to the decrease in fair value of the contingent consideration. The increase in salaries, benefits, and stock-based compensation was primarily driven by a 15% increase in average headcount from the nine months ended September 30, 2019 to the nine months ended September 30, 2020. Acquisition-related costs in the period related to the Rimilia Acquisition, which closed in October 2020.

Interest income

	Quarter Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	$	%	2020	2019	$	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Interest income	$ 648	$ 2,161	$ (1,513)	(70)%	$ 4,142	$ 3,590	$ 552	15 %

The decrease in interest income during the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019, was primarily due to a decrease in average interest rates, partially offset by interest

earned on higher cash balances in the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019.

The increase in interest income during the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, was primarily due to interest earned on higher cash balances, partially offset by decrease in average interest rates in the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019.

Interest expense

	Quarter Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	$	%	2020	2019	$	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Interest expense	$ 5,914	$ 3,006	$ 2,908	97 %	$ 17,340	$ 3,006	$ 14,334	477 %

Interest expense during the quarter and nine months ended September 30, 2020 was due to amortization of the debt discount on the Notes issued in August of 2019 and, to a lesser extent, interest accrued during the period on the outstanding balance on the Notes.

Provision for income taxes

The amounts below reflect the revisions as discussed in Note 2, “Basis of Presentation, Significant Accounting Policies and Recently-Issued Accounting Pronouncements”.

	Quarter Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	$	%	2020	2019	$	%
	(in thousands, except percentages)				(in thousands, except percentages)			
Provision for income taxes	$ 555	$ 170	$ 385	226 %	$ 871	$ 856	$ 15	2 %

We are subject to federal and state income taxes in the United States and taxes in foreign jurisdictions. For the quarter ended September 30, 2020, 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 quarters ended September 30, 2020 and 2019, we recorded $0.6 million and $0.2 million of income tax expense, respectively. For the nine months ended September 30, 2020 and 2019, we recorded $0.9 million and $0.9 million of income tax expense, respectively. The increase in income tax expense for the quarter ended September 30, 2020, compared to the quarter ended September 30, 2019, resulted primarily from changes in the mix of profitable foreign jurisdictions and higher foreign withholding taxes during the current period. Income tax expense for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, remained relatively flat. For the quarters and nine months ended September 30, 2020 and 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. The provision for income taxes for the nine months ended September 30, 2020 was primarily related to our international operations.

Liquidity and Capital Resources

At September 30, 2020, our principal sources of liquidity were an aggregate of $525.5 million of cash and cash equivalents and marketable securities, which primarily consist of short-term, investment-grade U.S. treasury securities, corporate bonds, and commercial paper. We had $500.0 million aggregate principal amount of Notes outstanding at September 30, 2020.

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 September 30, 2020.

In connection with the offering of the Notes, we entered into the Capped Calls with certain counterparties covering, subject to anti-dilution adjustments, approximately 6.8 million shares of our common stock and are generally expected to offset the potential economic dilution of our common stock up to the initial cap price. The

Capped Calls have an initial strike price of $73.40 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Notes. The Capped Calls have an initial cap price of $106.76 per share, subject to certain adjustments.

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 strategic transactions and the continuing market acceptance of our solutions. From time to time, 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:

	Nine Months Ended September 30,	
	2020	**2019**
	(in thousands)	
Net cash provided by operating activities	$ 39,923	$ 21,500
Net cash provided by investing activities	$ 236,422	$ 11,946
Net cash provided by financing activities	$ 11,373	$ 448,250

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 nine months ended September 30, 2020, cash provided by operations was $39.9 million, resulting from net non-cash expenses of $70.2 million, partially offset by our net loss of $26.8 million and net cash flow used as a result of changes in operating assets and liabilities of $3.5 million. The $3.5 million of net cash flows used as a result of changes in our operating assets and liabilities reflected the following:

- a $5.7 million increase in other assets;
- a $4.6 million decrease in accounts payable;
- a $3.7 million decrease in operating lease liabilities;
- a $3.1 million increase in prepaid expenses and other current assets; and
- a $1.0 million decrease in accrued expenses and other current liabilities primarily associated with payments of the 2019 employee bonuses during the nine months ended September 30, 2020.

These changes in our operating assets and liabilities were partially offset by the following:

- a $11.6 million decrease in accounts receivable due to increased collections; and
- a $3.1 million increase in deferred revenue as a result of the growth of our customer and user bases.

For the nine months ended September 30, 2019, cash provided by operations was $21.5 million, resulting from net non-cash expenses of $48.5 million, largely offset by our net loss of $23.4 million and net cash flow used as a result of changes in operating assets and liabilities of $3.5 million. The $3.5 million of net cash flows used as a result of changes in our operating assets and liabilities reflected the following:

- a $9.6 million increase in other assets;
- a $7.5 million increase in accounts receivable;
- a $4.0 million decrease in operating lease liabilities; and
- a $1.6 million decrease in accounts payable.

These changes in our operating assets and liabilities were largely offset by the following:

- a $15.0 million increase in deferred revenue as a result of the growth of our customer and user bases;
- a $3.1 million decrease in prepaid expenses and other current assets; and
- a $1.0 million increase in accrued expenses and other current liabilities.

Net Cash Provided By Investing Activities

Our investing activities consist primarily of investments in, and maturities and sales of, marketable securities, cash paid for a pending acquisition, capitalized software development costs, and capital expenditures for property and equipment.

For the nine months ended September 30, 2020, cash provided by investing activities was $236.4 million as a result of $370.5 million of proceeds from maturities and sales of marketable securities, net of purchases, partially offset by $121.4 million in cash paid for a pending acquisition, $7.8 million in capitalized software development costs, $2.5 million in purchases of property and equipment, and $2.3 million in purchases of intangible assets related to the purchase of a defensive patent.

For the nine months ended September 30, 2019, cash provided by investing activities was $11.9 million as a result of $19.2 million of proceeds from maturities and sales of marketable securities, net of purchases, partially offset by $3.8 million in capitalized software development costs and $3.5 million in purchases of property and equipment.

Net Cash Provided By Financing Activities

For the nine months ended September 30, 2020, cash provided by financing activities was $11.4 million as a result of $14.3 million of proceeds from exercises of stock options and $3.6 million of proceeds from the employee stock purchase plan, partially offset by $6.1 million of acquisitions of common stock for tax withholding obligations.

For the nine months ended September 30, 2019, cash provided by financing activities was $448.3 million primarily as a result of net proceeds of $441.0 million from the issuance of the Notes, net of the purchase of the associated Capped Calls; $8.4 million of proceeds from exercises of stock options; and $2.6 million of proceeds from the employee stock purchase plan, partially offset by $3.4 million of acquisitions of common stock for tax withholding obligations.

Contractual Obligations and Commitments

Contractual obligations at September 30, 2020 were as follows (in thousands):

		Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Purchase obligations	$ 13,103	$ 3,105	$ 9,193	$ 170	$ 635

We are required to pay up to a maximum of $8.0 million of contingent consideration related 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 September 30, 2020, liabilities for unrecognized tax benefits of $2.1 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 September 30, 2020 were scheduled to expire as follows (in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	Thereafter
Letters of credit	$ 297	$ —	$ —	$ 36	$ 261

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 September 30, 2020, 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 consolidated financial statements are prepared in accordance with GAAP, which require us to make estimates and assumptions about future events that affect the amounts reported in our unaudited consolidated financial statements and the accompanying notes included elsewhere in this Quarterly Report on Form 10-Q. Our critical accounting policies and estimates are detailed in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2019.

Recent Accounting Pronouncements

See Note 2 - “Basis of Presentation, Significant Accounting Policies and Recently-Issued Accounting Pronouncements” contained in the “Notes to Unaudited Condensed Consolidated Financial Statements” in Item 1 of Part I of this Quarterly Report on Form 10-Q for a full description of the recent accounting pronouncements and our expectation of their impact, if any, on our results of operations and financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 customers 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 the Notes. The Notes have a fixed annual interest rate of 0.125%; therefore, we do not have economic interest rate exposure with respect to 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 value of the Notes is 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 $525.5 million at September 30, 2020. 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 September 30, 2020.

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 4. 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 September 30, 2020, the last day of the period covered by this Quarterly Report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, at September 30, 2020, our disclosure controls and procedures were effective at the reasonable assurance level.

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 September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Disclosure 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.

PART II. OTHER INFORMATION

Item 1. 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 Quarterly Report on Form 10-Q, 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 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 Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our unaudited condensed 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 potential customers that rely on tools such as Excel, or that have already invested substantial personnel and financial resources to integrate on-premise or other software into their businesses, 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. As we reallocate marketing resources to focus on digital events, digital lead generation, and tools to help our sales representatives connect with prospects virtually in-light of COVID-19, there is no guarantee these new marketing efforts will be successful, and our business may 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, or 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 sales and marketing efforts may be impacted by geopolitical developments and other events beyond our control, such as COVID-19. Such events can increase levels of political and economic unpredictability globally and increase the volatility of global financial markets. For example, in response to COVID-19, we have shifted our customer events to virtual-only experiences and we may deem it advisable to similarly alter, postpone or cancel entirely additional customer or industry events in the future. Moreover, these conditions could adversely affect our customers' ability or willingness to attend our events or to purchase new or additional products or services, delay prospective customers' purchasing decisions, or reduce the value or duration of their subscription agreements, all of which could adversely affect our future growth.

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 contract term expires. Although our agreements typically include automatic renewal language, our customers may cancel their agreements at the expiration of the 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. For example, economic effects of COVID-19 have impacted and may continue to impact our renewal rate. Any prolonged shut down of a significant portion of global economic activity or a downturn in the global economy would adversely affect the industries in which our customers operate, which could adversely affect our customers' ability or willingness to renew their subscription agreements or could cause our customers to downgrade the terms of their subscription agreement at this time.

Further, 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. In response to COVID-19, many of our competitors have begun offering free products or services to attract new customers. We have offered free access to our entire training library and have offered the Task Management and Reporting modules complimentary for six months to existing customers to enable a more effective remote close. In addition, we are now offering complimentary coaching sessions with our existing customers. We may have to

provide additional free products, services or modules in order to retain our customers, which could adversely impact our operating results over time. If our customers do not renew their agreements with us or renew on terms less favorable to us, our revenues may decline.

The global COVID-19 pandemic is having a material adverse impact on the operations and financial performance of many of the customers in industries that we serve and could harm our business and operating results.

In December 2019, the emergence of COVID-19 was reported and in March 2020, the WHO characterized COVID-19 as a pandemic. This contagious disease outbreak has continued to spread across the world and is impacting macroeconomic activity and financial markets. In light of the uncertain and rapidly evolving situation relating to the spread of COVID-19, we have taken precautionary measures intended to minimize the risk of the virus to our employees, our customers, and the communities in which we operate, which has, and may continue to negatively impact our business and we continue to monitor the situation and may adjust our current policies as more information and public health guidance become available. These precautionary measures could negatively affect our customer success efforts, sales and marketing efforts, delay and increase the length of our sales cycle, or create operational or other challenges, any of which will harm our business and operating results. In addition, COVID-19 has disrupted the operations of our customers and partners, and may continue to disrupt their operations for an indefinite period of time, including as a result of travel restrictions and/or business shut downs, uncertainty in the financial markets or other harm to their business and financial results, resulting in delayed purchasing decisions, extended payment terms, and postponed or cancelled projects, all of which will negatively impact our business and operating results, including sales and cash flows. More generally, COVID-19 has adversely affected economies and financial markets globally, which may lead to an extended economic downturn and a resulting decrease in technology spending, which could adversely affect demand for our offerings and harm our business and operating results. It is not possible at this time to estimate the potential impact of COVID-19 on our business, as the impact will depend on future developments, which are highly uncertain and cannot be predicted.

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 $29.9 million and $23.3 million for the nine months ended September 30, 2020 and 2019, respectively. We had an accumulated deficit of $189.3 million at September 30, 2020. 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 1,207 at September 30, 2020 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. Additionally, due to COVID-19, we have shut down certain workplaces and required our employees to work remotely. We may experience difficulties onboarding new employees remotely. 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, including the effects of COVID-19;
- 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. We cannot be certain that any new software solutions or products we introduce 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 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 solutions as an SAP solution-extension ("SolEx"), 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. As a result of COVID-19, we also expect delays coming from our SAP and SolEx partnerships, which could harm our business. We also expect services revenue to decrease as new implementation projects are delayed.

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 resold by SAP as a solution extension, 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. The risk of a cybersecurity incident occurring has increased as more companies and individuals work remotely, and potentially expose us to new, complex threats. 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 minimize the risk of security breaches, including deploying additional personnel and protection technologies, training employees, and engaging third-party experts and contractors. We continually increase our investments in cybersecurity to countermeasure emerging risks and threats. If a high profile security breach occurs with respect to another Software as a Service ("SaaS") provider or other technology companies, our current and potential customers 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 customers 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 current 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, Therese Tucker, has provided our strategic direction for over nineteen years and has built and maintained what we believe is an attractive workplace culture. In August 2020, our board of directors elected Marc Huffman, our current President and Chief Operating Officer, to succeed Therese Tucker as our Chief Executive Officer, effective as of January 1, 2021. This change in our executive management team, and any future changes, resulting from the hiring or departure of executives, could disrupt our business, and could impact our ability to preserve our culture, which could negatively affect our ability to recruit and retain personnel. If we are not successful in managing the transition of our new Chief Executive Officer, it could be viewed negatively by our customers, employees or investors and could have an adverse impact on our business. Further, this change also increases our dependency on other members of our executive management team who remain with us. 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. Any such departure could be particularly disruptive in light of the recent leadership transition and to the extent we experience management turnover, competition for top management is high and it may take months to find a candidate that

meets our requirements. Accordingly, the loss of one or more of our executive officers or key employees 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 and this difficulty may be heightened by intensified restrictions on travel and social distancing during the COVID-19 pandemic. 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. The COVID-19 outbreak has adversely affected economies and financial markets globally, with many businesses cutting spending on information technology deemed nonessential. During the nine months ended September, 30, 2020, we have seen certain new and existing customers halt or decrease investment in infrastructure, which has negatively impacted our business, operating results, and financial condition. Future deterioration in general economic conditions, including as a result of COVID-19, or a slow economic recovery, 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. Due to COVID-19, our sales and marketing teams have avoided in-person meetings and have been engaging with customers online and through other communications channels, including virtual meetings. There is no guarantee that our sales and marketing teams will be as successful or effective using these other communications channels as they try to build relationships. 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. Moreover, some industries particularly impacted by COVID-19, such as travel, hospitality, retail, or oil and gas have significantly cut or eliminated capital expenditures at this time. As such, we have deemphasized building new relationships with those verticals during the pandemic which could harm our customer base.

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 related 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 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, public health crises, such as COVID-19, 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 our customers. 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"). In October 2020, we completed our acquisition of Rimilia, a United Kingdom-based provider of accounts receivable automation solutions that enable organizations to control cash flow and cash collection in real time. We derived approximately 25% and 22% of our revenues from sales outside the United States in the nine months ended September 30, 2020 and 2019, respectively. Any international expansion efforts that we may undertake, including our Runbook Acquisition, our Japanese Joint Venture and our Rimilia Acquisition, 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 pandemics, such as COVID-19, 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 October 2020, we completed our acquisition of Rimilia, 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.

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. In connection with a strategic transaction, 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; or
- become subject to adverse tax consequences, substantial depreciation, and amortization, or deferred compensation charges.

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. 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.

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, India, and China. Outbreaks of pandemic diseases, such as COVID-19, or the fear of such events, have required us to shut down certain workplaces, which could decrease productivity and increase reliance on remote solutions, which present different security challenges. 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 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 two patents and 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 related 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 historically relied upon EU-U.S. Privacy Shield and Swiss-U.S. Privacy Shield certifications for the transfer of personal data from the EU and Switzerland to the United States. The "Schrems II" decision issued by the Court of Justice of the European Union ("ECJ") on July 16, 2020 invalidated use of the EU-U.S. Privacy Shield as a valid mechanism for transfer of personal data of EU data subjects from the EU to the U.S. We have begun putting in place the EU Standard Contractual Clauses with our clients per the guidance of the ECJ in the Schrems II ruling. We may, in addition to other impacts, experience additional costs associated with increased compliance burdens following the Schrems II decision, and we and our customers face the potential for regulators in the EEA to apply different standards to the transfer of personal data from the EEA to the U.S., and to block, or require ad hoc verification of measures taken with respect to, certain data flows from the EEA to the U.S. We also may be required to engage in new contract negotiations with third parties that aid in processing data on our behalf. 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. We may also 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. Any such enforcement actions could result in substantial costs and diversion of resources, distract management and technical personnel and negatively affect our business, operating results and financial condition. 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 laws, regulations and industry standards to be proposed, enacted, and otherwise established concerning privacy, security, and data protection in the United States, the EU, and other jurisdictions. For example, the EU General Data Protection Regulation (the "GDPR"), which became effective on May 25, 2018 imposes stringent EU data protection requirements for processors and controllers of personal data. As a regulation, 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. 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 United Kingdom's exit from the EU pursuant to Brexit became effective January 31, 2020 and is followed by a transition period ending December 31, 2020 during which the United Kingdom will continue to be bound by EU rules and regulations (the "Transition Period"). 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 how the United Kingdom's withdrawal from the EU pursuant to Brexit will impact the manner in which United Kingdom data protection laws or regulations will develop and how data transfers to and from the United Kingdom will be regulated and enforced by the UK Information Commissioner's Office, EU data protection authorities, or other regulatory bodies after the Transition Period.

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 additional regulations of the California Attorney General came into effect on August 14, 2020. However, 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. Moreover, a new privacy law, the California Privacy Rights Act ("CPRA") was recently approved by California voters in connection with the election on November 3, 2020. The CPRA will significantly modify the CCPA, potentially resulting in further uncertainty and requiring us to incur additional 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.

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, including third-party SaaS applications, 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 current 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.

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. For example, as a result of the impact of COVID-19, current and potential customers have delayed and deferred purchasing decisions and there has been a deterioration in the near-term demand. 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. Services may decrease sequentially as new implementation projects are delayed. Weak economic conditions affect the rate of accounting and finance and information technology spending and could adversely affect our current 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. Prolonged economic uncertainties relating to COVID-19 could limit our ability to grow our business and negatively 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. For example, the impact of COVID-19 on the current economic environment has caused customers to request concessions, including extended payment terms, free modules or better pricing. 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 example, California has recently passed legislation limiting the use of NOLs for taxable years 2020, 2021, and 2022. 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 legislation commonly referred to as the Tax Cuts and Jobs Act of 2017, as modified by the Coronavirus Aid, Relief, and Economic Security Act, includes changes to the U.S. federal corporate income tax rate and changes to the rules governing the deductibility of certain NOLs, and our NOLs and other deferred tax assets have been revalued at the newly enacted rate and according to the new rules. 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, or we may opportunistically decide to raise capital. 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 or convertible debt 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, for example because of increased demand for financings due to economic uncertainty relating to COVID-19. 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.

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, such as the recent spread of COVID-19, terrorism, political unrest, 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 and wildfires 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 September 30, 2020, we had goodwill and intangible assets with a net book value of $200.2 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 and the Notes

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, such as COVID-19, presidential elections, civil unrest, 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.

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.

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 principal amount of the Notes in cash at their maturity, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of 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 the Indenture. 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 on hand 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. Further, if the Notes convert and we elect to issue common stock in lieu of cash upon conversion, our existing stockholders could suffer significant dilution.

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.

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

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled under the Indenture governing the Notes to convert their such Notes at any time during specified periods at their

option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation in cash, which could adversely affect our liquidity. In addition, in certain circumstances, such as conversion by holders or redemption, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The Capped Calls may affect the value of the Notes and our common stock and we are subject to counterparty risk with respect to the Capped Calls.

In connection with the issuance of the Notes, we entered into the Capped Calls. The Capped Calls cover, subject to customary adjustments, the number of shares of our common stock initially underlying the Notes. The Capped Calls are expected to offset the potential dilution as a result of conversion of the Notes.

The counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions at any time prior to the maturity of the Notes (and are likely to do so on each exercise date of the capped call transactions). This activity could also cause or prevent an increase or a decrease in the market price of our common stock.

We do not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of the Notes or the shares of our common stock. In addition, we do not make any representation that these transactions will not be discontinued without notice.

In addition, global economic conditions have in the past resulted in the actual or perceived failure or financial difficulties of many financial institutions. The counterparties to the Capped Calls are financial institutions and we will be 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. 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 transaction. Our exposure will depend on many factors but, generally, it will increase if the market price or the volatility of our common stock increases. Upon a default or other failure to perform, or a termination of obligations, by a counterparty, we may suffer adverse tax consequences and 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.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

None.

Issuer Purchases of Equity Securities

None.

Item 6. Exhibits

The documents listed in the Exhibit Index of this Quarterly Report on Form 10-Q are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference Form	File No.	Exhibit	Da
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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document				
101.SCH	Inline XBRL Taxonomy Extension Schema Document				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

† The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

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

BlackLine, Inc.

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

Date: November 9, 2020

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

Date: November 9, 2020

Exhibit 31.1

**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 Quarterly Report on Form 10-Q 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: November 9, 2020

BLACKLINE, INC.

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

Exhibit 31.2

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 Quarterly Report on Form 10-Q 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: November 9, 2020

BLACKLINE, INC.

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

Exhibit 32.1

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 Quarterly Report on Form 10-Q of BlackLine, Inc. for the quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of BlackLine, Inc.

Date: November 9, 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 Quarterly Report on Form 10-Q of BlackLine, Inc. for the quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of BlackLine, Inc.

Date: November 9, 2020	By:	/s/ Mark Partin
	Name:	Mark Partin
	Title:	Chief Financial Officer (Principal Financial Officer)