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, 2024

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

For transition period from to

Commission File Number 001-39156

SPROUT SOCIAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	27-2404165
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

131 South Dearborn St., Suite 700
Chicago, Illinois
60603
(Address of principal executive offices and zip code)

(866) 878-3231
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, $0.0001 par value per share	SPT	The Nasdaq Stock Market LLC

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

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

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

Large accelerated filer	☒	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 of the Exchange Act. ☐

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

As of November 1, 2024, there were 50,898,474 shares and 6,500,638 shares of the registrant’s Class A and Class B common stock, respectively, $0.0001 par value per share, outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Quarterly Report on Form 10-Q ("Quarterly Report") not based on historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements about Sprout Social, Inc.'s ("Sprout Social") plans, objectives, strategies, financial performance and outlook, trends, prospects or future events and involve known and unknown risks that are difficult to predict. As a result, our actual financial results, performance, achievements or prospects may differ materially from those expressed or implied by these forward-looking statements. In some cases, you can identify forward-looking statements by the use of words such as "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "explore," "intend," "long-term model," "may," "might," "outlook," "plan," "potential," "predict," "project," "should," "strategy," "target," "will," "would," or the negative of these terms and similar expressions intended to identify forward-looking statements, as they relate to Sprout Social, our business and our management. Forward-looking statements are necessarily based upon estimates and assumptions that, while considered reasonable by Sprout Social and our management based on their knowledge and understanding of the business and industry, are inherently uncertain. These forward-looking statements should not be read as a guarantee of future performance or results, and stockholders should not place undue reliance on forward-looking statements. There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Such risks, uncertainties and other important factors include, among others, the risks, uncertainties and factors set forth under "Part I—Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations" and in our most recent Annual Report on Form 10-K under Part I—Item 1A. "Risk Factors" and the risks and uncertainties related to the following:

- our ability to attract, retain, and grow customers;
- our future financial performance, including our revenue, cost of revenue, gross profit, operating expenses, ability to generate positive cash flow, and ability to achieve and maintain profitability;
- our ability to access third-party APIs and data on favorable terms;
- our ability to increase spending of existing customers;
- the evolution of the social media industry, including technological advances and adapting to new regulations and use cases;
- the introduction of artificial intelligence technologies into our products, which may lead to increased governmental or regulatory scrutiny;
- our ability to innovate and provide a superior customer experience;
- our ability to successfully enter new markets, manage our international expansion and comply with any applicable laws and regulations;
- our ability to successfully adapt our sales, success, and compliance efforts to the demands of sophisticated enterprise customers;
- our ability to maintain and enhance our brand;
- our estimates of the size of our market opportunities;
- the effects of increased competition from our market competitors or new entrants to the market;
- our ability to securely maintain customer and other third-party data;

- our ability to comply with existing, modified or new laws and regulations applying to our business, including data privacy and security regulations;
- our ability to maintain, protect and enhance our intellectual property;
- worldwide economic conditions, including the macroeconomic impacts of high levels of inflation, high interest rates and ongoing overseas conflict, and their impact on demand for our platform and products;
- our ability to acquire, invest in, and integrate other businesses or technologies into our business or achieve the expected benefits of such acquisitions and technologies;
- our ability to attract and retain qualified employees and key personnel;
- our ability to manage our substantial debt in a way that does not adversely affect our business; and
- the other factors set forth in our Annual Report filed with the United States Securities and Exchange Commission ("SEC") on Form 10-K under Part I—Item 1A, "Risk Factors."

These factors are not necessarily all of the important factors that could cause our actual financial results, performance, achievements or prospects to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date they are made, and we do not undertake or assume any obligation to update forward-looking statements to reflect actual results, changes in assumptions, laws or other factors affecting forward-looking information, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

In addition, statements such as "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this report. While we believe such information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Sprout Social, Inc.
Condensed Consolidated Balance Sheets (Unaudited)
(in thousands, except share and per share data)

	September 30, 2024		December 31, 2023	
Assets				
Current assets				
Cash and cash equivalents	$	82,886	$	49,760
Marketable securities		8,625		44,645
Accounts receivable, net of allowances of $2,220 and $2,177 at September 30, 2024 and December 31, 2023, respectively		54,361		63,489
Deferred commissions		17,662		27,725
Prepaid expenses and other assets		14,984		10,324
Total current assets		178,518		195,943
Marketable securities, noncurrent		—		3,699
Property and equipment, net		10,773		11,407
Deferred commissions, net of current portion		45,772		26,240
Operating lease, right-of-use assets		8,003		8,729
Goodwill		121,315		121,404
Intangible assets, net		23,388		28,065
Other assets, net		1,060		1,098
Total assets	$	388,829	$	396,585
Liabilities and Stockholders’ Equity				
Current liabilities				
Accounts payable	$	7,536	$	6,933
Deferred revenue		149,172		140,536
Operating lease liabilities		3,913		3,948
Accrued wages and payroll related benefits		15,669		18,362
Accrued expenses and other		10,227		11,260
Total current liabilities		186,517		181,039
Revolving credit facility		30,000		55,000
Deferred revenue, net of current portion		1,040		920
Operating lease liabilities, net of current portion		12,835		15,083
Other noncurrent liabilities		351		351
Total liabilities		230,743		252,393

Sprout Social, Inc.
Condensed Consolidated Balance Sheets (Unaudited) (cont'd)
(in thousands, except share and per share data)

	September 30, 2024	December 31, 2023
Commitments and contingencies (Note 7)		
Stockholders' equity		
Class A common stock, par value $0.0001 per share; 1,000,000,000 shares authorized; 53,810,286 and 50,878,170 shares issued and outstanding, respectively, at September 30, 2024; 52,133,594 and 49,241,563 shares issued and outstanding, respectively, at December 31, 2023	4	4
Class B common stock, par value $0.0001 per share; 25,000,000 shares authorized; 6,727,582 and 6,520,638 shares issued and outstanding, respectively, at September 30, 2024; 7,201,140 and 6,994,196 shares issued and outstanding, respectively, at December 31, 2023	1	1
Additional paid-in capital	535,154	471,789
Treasury stock, at cost	(37,113)	(35,113)
Accumulated other comprehensive loss	6	(77)
Accumulated deficit	(339,966)	(292,412)
Total stockholders' equity	158,086	144,192
Total liabilities and stockholders' equity	$ 388,829	$ 396,585

See Notes to Condensed Consolidated Financial Statements.

Sprout Social, Inc.
Condensed Consolidated Statements of Operations
(Unaudited)
(in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue				
Subscription	$ 101,813	$ 84,802	$ 296,100	$ 238,234
Professional services and other	825	730	2,718	1,825
Total revenue	102,638	85,532	298,818	240,059
Cost of revenue				
Subscription	22,928	19,874	67,211	54,479
Professional services and other	304	324	851	828
Total cost of revenue	23,232	20,198	68,062	55,307
Gross profit	79,406	65,334	230,756	184,752
Operating expenses				
Research and development	26,272	20,057	75,167	56,889
Sales and marketing	47,499	44,499	138,233	120,711
General and administrative	22,514	24,982	64,035	58,206
Total operating expenses	96,285	89,538	277,435	235,806
Loss from operations	(16,879)	(24,204)	(46,679)	(51,054)
Interest expense	(851)	(1,147)	(2,869)	(1,210)
Interest income	1,007	1,651	3,095	5,811
Other expense, net	(110)	(293)	(773)	(650)
Loss before income taxes	(16,833)	(23,993)	(47,226)	(47,103)
Income tax expense (benefit)	254	(980)	328	(753)
Net loss	$ (17,087)	$ (23,013)	$ (47,554)	$ (46,350)
Net loss per share attributable to common shareholders, basic and diluted	$ (0.30)	$ (0.41)	$ (0.84)	$ (0.83)
Weighted-average shares outstanding used to compute net loss per share, basic and diluted	57,179,710	55,831,230	56,742,498	55,508,195

See Notes to Condensed Consolidated Financial Statements.

Sprout Social, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(Unaudited)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss	$ (17,087)	$ (23,013)	$ (47,554)	$ (46,350)
Other comprehensive loss:				
Net unrealized gain (loss) on available-for-sale securities, net of tax	35	105	83	80
Comprehensive loss	$ (17,052)	$ (22,908)	$ (47,471)	$ (46,270)

See Notes to Condensed Consolidated Financial Statements.

Sprout Social, Inc.
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
(in thousands, except share data)

	Voting Common Stock (Class A and B)		Additional Paid-in Capital	Treasury Stock		Accumulated other comprehensive loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balances at June 30, 2024	57,080,013	$ 5	$ 511,887	3,130,465	$ (36,861)	$ (29)	$ (322,879)	$ 152,123
Exercise of stock options	2,010	—	2					2
Stock-based compensation			23,265					23,265
Issuance of common stock from equity award settlement	316,785	—						—
Taxes paid related to net share settlement of equity awards				8,595	(252)			(252)
Other comprehensive gain (loss), net of tax						35		35
Net loss							(17,087)	(17,087)
Balances at September 30, 2024	57,398,808	$ 5	$ 535,154	3,139,060	$ (37,113)	$ 6	$ (339,966)	$ 158,086

	Voting Common Stock (Class A and B)		Additional Paid-in Capital	Treasury Stock		Accumulated other comprehensive loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balances at June 30, 2023	55,729,908	$ 5	$ 432,955	3,081,013	$ (34,102)	$ (394)	$ (249,322)	$ 149,142
Stock-based compensation			19,184					19,184
Issuance of common stock from equity award settlement	250,230	—						—
Taxes paid related to net share settlement of equity awards				8,981	(474)			(474)
Other comprehensive gain (loss), net of tax						105		105
Net loss							(23,013)	(23,013)
Balances at September 30, 2023	55,980,138	$ 5	$ 452,139	3,089,994	$ (34,576)	$ (289)	$ (272,335)	$ 144,944

Sprout Social, Inc.
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
(in thousands, except share data)

	Voting Common Stock (Class A and B)		Additional Paid-in Capital	Treasury Stock		Accumulated other comprehensive loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balances at December 31, 2023	56,235,759	$ 5	$ 471,789	3,098,975	$ (35,113)	$ (77)	$ (292,412)	$ 144,192
Exercise of stock options	27,010	—	29					29
Stock-based compensation			62,098					62,098
Issuance of common stock from equity award settlement	1,095,232	—						—
Taxes paid related to net share settlement of equity awards				40,085	(2,000)			(2,000)
Issuance of common stock in connection with employee stock purchase plan	40,807	—	1,238					1,238
Other comprehensive gain (loss), net of tax						83		83
Net loss							(47,554)	(47,554)
Balances at September 30, 2024	57,398,808	$ 5	$ 535,154	3,139,060	$ (37,113)	$ 6	$ (339,966)	$ 158,086

	Voting Common Stock (Class A and B)		Additional Paid-in Capital	Treasury Stock		Accumulated other comprehensive loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balances at December 31, 2022	55,023,343	$ 5	$ 401,419	3,057,448	$ (32,733)	$ (369)	$ (225,985)	$ 142,337
Exercise of stock options	30,000	—	29					29
Stock-based compensation			49,264					49,264
Issuance of common stock from equity award settlement	890,435	—						—
Taxes paid related to net share settlement of equity awards				32,546	(1,843)			(1,843)
Issuance of common stock in connection with employee stock purchase plan	36,360	—	1,427					1,427
Other comprehensive gain (loss), net of tax						80		80
Net loss							(46,350)	(46,350)
Balances at September 30, 2023	55,980,138	$ 5	$ 452,139	3,089,994	$ (34,576)	$ (289)	$ (272,335)	$ 144,944

See Notes to Condensed Consolidated Financial Statements.

Sprout Social, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Nine Months Ended September 30, 2024	2023
Cash flows from operating activities		
Net loss	$ (47,554)	$ (46,350)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization of property, equipment and software	2,826	2,302
Amortization of line of credit issuance costs	155	34
Amortization of premium (accretion of discount) on marketable securities	(383)	(2,733)
Amortization of acquired intangible assets	4,677	1,937
Amortization of deferred commissions	11,649	19,064
Amortization of right-of-use operating lease asset	1,360	1,128
Stock-based compensation expense	61,850	49,045
Provision for accounts receivable allowances	1,473	1,583
Tax benefit related to release of valuation allowance	—	(1,134)
Changes in operating assets and liabilities, excluding impact from business acquisition		
Accounts receivable	7,655	(7,747)
Prepaid expenses and other current assets	(4,723)	(3,535)
Deferred commissions	(21,118)	(26,018)
Accounts payable and accrued expenses	(1,526)	247
Deferred revenue	8,755	23,867
Lease liabilities	(2,917)	(2,630)
Net cash provided by operating activities	22,179	9,060
Cash flows from investing activities		
Expenditures for property and equipment	(2,062)	(1,444)
Payments for business acquisition, net of cash acquired	(1,409)	(145,779)
Purchases of marketable securities	—	(63,085)
Proceeds from maturity of marketable securities	40,185	85,964
Proceeds from sale of marketable securities	—	5,538
Net cash provided by (used in) investing activities	36,714	(118,806)
Cash flows from financing activities		
Borrowings from line of credit	—	75,000
Repayments of line of credit	(25,000)	—
Payments for line of credit issuance costs	—	(823)
Proceeds from exercise of stock options	29	29
Proceeds from employee stock purchase plan	1,238	1,427
Employee taxes paid related to the net share settlement of stock-based awards	(2,000)	(1,843)
Net cash (used in) provided by financing activities	(25,733)	73,790
Net increase (decrease) in cash, cash equivalents and restricted cash	33,160	(35,956)
Cash, cash equivalents and restricted cash		
Beginning of period	53,695	79,917
End of period	$ 86,855	$ 43,961
Reconciliation of cash, cash equivalents, and restricted cash		
Cash and cash equivalents	$ 82,886	$ 41,103
Restricted cash, included in prepaid expenses and other assets	3,969	2,858
Total cash, cash equivalents and restricted cash shown in the condensed consolidated statements of cash flows	$ 86,855	$ 43,961
Supplemental noncash disclosures		

Sprout Social, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

Operating lease liability arising from operating ROU asset obtained	$	634	$	230
Deferred debt issuance costs not yet paid	$	—	$	208

See Notes to Condensed Consolidated Financial Statements.

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Sprout Social, Inc. (“Sprout Social” or the “Company”), a Delaware corporation, began operating on April 21, 2010 to design, develop and operate a web-based comprehensive social media management tool enabling companies to manage and measure their online presence. Customers access their accounts online via a web-based interface or a mobile application. Some customers also purchase the Company’s professional services, which primarily consist of consulting and training services. The Company’s fiscal year end is December 31. The Company’s customers are primarily located throughout the United States, and a portion of customers are located in foreign countries. The Company is headquartered in Chicago, Illinois.

Principles of Consolidation and Basis of Presentation

The unaudited condensed consolidated financial statements and accompanying notes were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the applicable regulations of the United States Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The Company has prepared the unaudited condensed consolidated financial statements on a basis substantially consistent with the audited consolidated financial statements of the Company as of and for the year ended December 31, 2023, and these unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair statement of the results of the interim periods presented but are not necessarily indicative of the results of operations to be anticipated for the full year or any future period. The consolidated balance sheet as of December 31, 2023 included herein was derived from the audited consolidated financial statements as of that date but does not include all disclosures including certain disclosures required by GAAP on an annual basis. The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 23, 2024.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The Company bases its estimates on historical experience and on other assumptions that its management believes are reasonable under the circumstances. Actual results could differ from those estimates. The Company’s estimates and judgments include, but are not limited to, the estimated period of benefit for incremental costs of obtaining a contract with a customer, the incremental borrowing rate for operating leases, calculation of allowance for credit losses, valuation of assets and liabilities acquired as part of business combinations, useful lives of long-lived assets, stock-based compensation, income taxes, commitments and contingencies and litigation, among others. The Company is not aware of any events or circumstances that would require an update to its estimates and judgments or a revision of the carrying value of its assets or liabilities as of November 8, 2024, the date of issuance of this Quarterly Report on Form 10-Q. Actual results could differ from those estimates.

Summary of Significant Accounting Policies

The Company's significant accounting policies are discussed in Note 1 - "Nature of Operations and Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements as of and for the year ended December 31, 2023 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 23, 2024. There have been no significant changes to these policies during the nine months ended September 30, 2024, except as noted below.

Sales Commissions

Sales commissions earned by our sales force are considered incremental costs of obtaining a contract with a customer. Sales commissions are paid on initial contracts with new customers and for expansion of contracts with existing customers. Commissions are not paid on customer renewals. Sales commissions are deferred and amortized on a straight-line basis over a period of benefit. The Company has historically estimated such period of benefit to be three years.

On an annual basis, the Company assesses the expected period of benefit by taking into consideration the products sold, mix of customers, expected customer life, expected contract renewals, technology life cycle and other factors. Based on the assessment performed during the first quarter of 2024, the Company updated the period of benefit from three years to five years. This change in accounting estimate was effective January 1, 2024 and is being accounted for prospectively in the condensed consolidated financial statements. For the three and nine months ended September 30, 2024, the change in amortization period resulted in a $3.4 million and $11.5 million reduction to sales and marketing expense, respectively, or an increase of $ 0.06 and $0.20 per share basic and diluted, respectively. The effects of this change in estimate were calculated based on the carrying value of deferred commissions as of December 31, 2023.

Recently Issued Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures for significant segment expenses. All disclosure requirements of ASU 2023-07 are required for entities with a single reportable segment. The ASU is effective for the Company's fiscal year ending December 31, 2024, and interim periods thereafter, and should be applied on a retrospective basis to all periods presented. Early adoption is permitted. The Company is currently evaluating these new disclosure requirements and does not expect the adoption to have a material impact on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures to enhance the transparency and decision usefulness of income tax disclosures. The ASU will be effective for the Company beginning with its annual report for the year ending December 31, 2025 and allows for adoption on a prospective basis, with a retrospective option. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on its consolidated financial statements and related disclosures.

2. Revenue Recognition

Disaggregation of Revenue

The Company provides disaggregation of revenue based on geographic region in Note 8 - “Segment and Geographic Data” of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) and based on the subscription versus professional services and other classification on the condensed consolidated statements of operations, as it believes these best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Deferred Revenue

Deferred revenue is recorded upon establishment of unconditional right to payment under non-cancellable contracts and is recognized as the revenue recognition criteria are met. The Company generally invoices customers in advance in monthly, quarterly, semi-annual and annual installments. The deferred revenue balance is influenced by several factors, including the compounding effects of renewals, invoice duration, timing and size. The amount of revenue recognized during the three months ended September 30, 2024 and 2023 that was included in deferred revenue at the beginning of each period was $70.1 million and $53.5 million, respectively. The amount of revenue recognized during the nine months ended September 30, 2024 and 2023 that was included in deferred revenue at the beginning of each period was $127.1 million and $87.7 million, respectively.

As of September 30, 2024, including amounts already invoiced and amounts contracted but not yet invoiced, $311.5 million of revenue is expected to be recognized from remaining performance obligations, of which 71% is expected to be recognized in the next 12 months, with the remainder thereafter.

3. Operating Leases

The Company has operating lease agreements for offices in Chicago, Illinois; Seattle, Washington; Santa Monica, California; Dublin, Ireland; and Kraków, Poland. The Chicago lease expires in January 2028, the Seattle lease expires in January 2031, the Santa Monica lease expires in January 2025, the Dublin lease expires in June 2025, and the Kraków lease expires in December 2029. These operating leases require monthly rental payments ranging from approximately $14,000 to $280,000. Under the terms of the lease agreements, the Company is also responsible for its proportionate share of taxes and operating costs, which are treated as variable lease costs. The Company’s operating leases typically contain options to extend or terminate the term of the lease. The Company currently does not include any options to extend leases in its lease terms as it is not reasonably certain to exercise them. As such, it has recorded lease obligations only through the initial optional termination dates above.

In August 2024, the Company entered into a new lease agreement for an office in Kraków, Poland. For accounting purposes under ASC 842, the lease commenced on August 30, 2024, resulting in the recording of a $0.6 million right-of-use operating lease asset and operating lease liability. The lease has an expected expiration date of December 2029.

The following table provides a summary of operating lease assets and liabilities as of September 30, 2024 (in thousands):

Assets		
Operating lease right-of-use assets	$	8,003
Liabilities		
Operating lease liabilities		3,913
Operating lease liabilities, non-current		12,835
Total operating lease liabilities	$	16,748

The following table provides information about leases on the condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2024		2023		2024		2023	
Operating lease expense	$	703	$	677	$	2,076	$	1,973
Variable lease expense		863		893		2,575		2,679

Within the condensed consolidated statements of operations, operating and variable lease expense are recorded in General and administrative expenses. Cash payments related to operating leases for the nine months ended September 30, 2024 and 2023 were $6.2 million and $6.2 million, respectively. As of September 30, 2024, the weighted-average remaining lease term is 4.4 years and the weighted-average discount rate is 5.6%.

Remaining maturities of operating lease liabilities as of September 30, 2024 are as follows (in thousands):

Years ending December 31,		
2024	$	940
2025		4,551
2026		4,567
2027		4,692
2028		1,577
Thereafter		2,619
Total future minimum lease payments	$	18,946
Less: imputed interest		(2,198)
Total operating lease liabilities	$	16,748

4. Income Taxes

The provision for income taxes for interim periods is generally determined using an estimate of the Company’s annual effective tax rate, excluding jurisdictions for which no tax benefit can be recognized due to valuation allowances. The Company’s effective tax rate differs from the U.S. federal statutory rate primarily due to a valuation allowance related to the Company’s federal and state deferred tax assets.

There is no provision for domestic income taxes because the Company has historically incurred operating losses and maintains a full valuation allowance against its net deferred tax assets. For the nine months ended September 30, 2024, the Company recognized an immaterial provision related to foreign income taxes.

The Company assesses all available positive and negative evidence to evaluate the realizability of its deferred tax assets and whether or not a valuation allowance is necessary. The Company's three-year cumulative loss position was significant negative evidence in assessing the need for a valuation allowance. The weight given to positive and negative evidence is commensurate with the extent such evidence may be objectively verified. Given the weight of objectively verifiable historical losses from operations, the Company has recorded a full valuation allowance on its deferred tax assets. The Company may be able to reverse the valuation allowance when sufficient positive evidence exists to support the reversal of the valuation allowance.

5. Revolving Line of Credit

On August 1, 2023, the Company entered into a Credit Agreement (the "Credit Agreement") by and among the Company, the banks and other financial institutions or entities party thereto as lenders and MUFG Bank, LTD. as administrative agent and collateral agent. The Credit Agreement provides for a $100 million senior secured revolving credit facility (the "Facility"), maturing on August 1, 2028. Borrowings under the Facility may be used to finance acquisitions and other investments permitted under the terms of the Credit Agreement, to pay related fees and expenses and for general corporate purposes. At September 30, 2024, the Company had an outstanding balance of $30.0 million under the Facility.

Borrowings under the Facility may be designated as SOFR Loans or ABR Loans (each as defined in the Credit Agreement), subject to certain terms and conditions under the Credit Agreement, and bear interest at a rate of either (i) SOFR (subject to a 1.0% floor), plus 0.10%, plus a margin ranging from 2.75% to 3.25% based on the Company's liquidity or (ii) ABR (subject to a 2.0% floor) plus a margin ranging from 1.75% to 2.25% based on the Company's liquidity. The Facility also includes a quarterly commitment fee on the unused portion of the Facility of 0.30% or 0.35% based on the Company's liquidity. For the nine months ended September 30, 2024, the borrowings under the Facility were designated as SOFR Loans and the weighted average interest rate in effect for the outstanding balance was approximately 8.16%.

Debt issuance costs associated with the Facility were recorded to Other assets, net within the condensed consolidated balance sheets and are being amortized as interest expense on a straight-line basis over the term of the Facility.

The Credit Agreement includes customary conditions to credit extensions, affirmative and negative covenants, and customary events of default. The customary conditions also include restrictions on the Company's ability to incur liens, incur indebtedness, make or hold investments, execute certain change of control transactions, business combinations or other fundamental changes to its business, dispose of assets, make certain types of restricted payments or enter into certain related party transactions, subject to customary exceptions. In addition, the Credit Agreement contains financial covenants as to (i) minimum liquidity, requiring the maintenance, at all times and measured at the end of each fiscal quarter, of cash and cash equivalents of not less than the greater of (x) $30 million and (y) 30% of the total revolving commitments, and (ii) minimum recurring revenue growth, requiring recurring revenue growth for the trailing four fiscal quarter period, measured at the end of each fiscal quarter, of not less than 115% of the actual recurring revenue for the same period in the prior fiscal year. As of September 30, 2024, the Company was in compliance with the covenants in the Credit Agreement.

6. Incentive Stock Plan

Stock-based compensation expense is included in the unaudited condensed consolidated statements of operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(in thousands)			
Cost of revenue	$ 1,059	$ 971	$ 2,890	$ 2,329
Research and development	7,493	5,020	18,979	12,949
Sales and marketing	8,962	8,570	24,527	22,346
General and administrative	5,672	4,452	15,454	11,421
Total stock-based compensation	$ 23,186	$ 19,013	$ 61,850	$ 49,045

7. Commitments and Contingencies

Contractual Obligations

The Company has non-cancellable minimum guaranteed purchase commitments for primarily data and services. Material contractual commitments as of September 30, 2024 that are not disclosed elsewhere are as follows (in thousands):

Years ending December 31,	
2024	$ 2,223
2025	6,800
2026	2,672
2027	611
2028	—
Thereafter	—
Total contractual obligations	$ 12,306

Legal Matters

From time to time in the normal course of business, the Company may be subject to various legal matters such as threatened or pending claims or proceedings.

Beginning on May 13, 2024, the Company and certain of its executives were named in two putative securities fraud class action cases filed in the United States District Court for the Northern District of Illinois asserting claims under Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5. The first action, captioned Munch v. Sprout Social, Inc., et al. (the "Munch Action"), was filed on May 13, 2024 and alleges that the defendants made false or misleading statements and omissions of fact relating to the Company's business, operations and prospects, including (i) purported integration challenges arising from the Company's August 2023 acquisition of Tagger Media, Inc. ("Tagger"), (ii) the Company's ability to service (and the viability of its strategic plan to focus on) the enterprise market, and (iii) as a result, the Company's 2024 financial guidance was required to be adjusted downward. The plaintiff in the Munch

Action seeks damages and costs on behalf of a putative class of Company stockholders and alleges a class period beginning on November 3, 2023 and ending on May 2, 2024. The second case, captioned City of Hollywood Police Officers' Retirement System v. Sprout Social, Inc., et al. (the "City of Hollywood Action" and, together with the Munch Action, the "Securities Actions") was filed on July 2, 2024. It asserts claims under the same statutory provisions based on substantially similar allegations of misconduct as the Munch Action, but alleges a class period beginning on November 3, 2021 and ending on May 2, 2024.

On July 12, 2024, three purported Company stockholders, including the named plaintiffs in the Securities Actions, filed motions to consolidate the Securities Actions and for appointment as lead plaintiff under the Private Securities Litigation Reform Act of 1995. Those motions remain pending. Based on a scheduling order entered by the Court in the first-filed Munch Action, the appointed lead plaintiff will have sixty days following a ruling on these motions to file a consolidated amended and/or consolidated complaint, after which Defendants will have sixty days to respond.

On September 3, 2024, a putative stockholder derivative lawsuit captioned Hannaway v. Sprout Social, Inc. et al., was filed in the United States District Court for the Northern District of Illinois against the Company's directors and certain officers (the "Derivative Action" and, together with the Securities Actions, the "Actions"). The Derivative Action alleges that the defendants failed to disclose (or misrepresented) facts about the Company's business, operations and prospects, including that (i) the Company's sales and revenue results were not indicative of its growth as it transitioned to an enterprise sales cycle, (ii) the Company was unable to sell to enterprise customers and thus overpaid for, and faced integration challenges with respect to, Tagger, and (iii) as a result, the Company faced longer sales cycles and a slowing pipeline, requiring a downward revision of its 2024 guidance. Based on these purported disclosure deficiencies and related alleged misconduct, plaintiff asserts federal claims under Sections 10(b), 14(a) and 21D of the Exchange Act and Rules 10b-5 and 14a-9, and state law claims for breach of fiduciary duties, unjust enrichment, corporate waste, aiding and abetting and insider selling, and seeks damages in an unspecified amount on the Company's behalf. On October 23, 2024, the court in the derivative action entered a stipulation and order staying the derivative action until the earliest of (i) entry of a final, non-appealable order on any summary judgment motions in the Securities Actions; (ii) a settlement or other mediated resolution in the Securities Actions; or (iii) as otherwise agreed to by the Parties.

The Company intends to vigorously defend against the claims asserted in the Actions. The outcomes of these actions are subject to inherent uncertainties, and the actual defense and disposition costs will depend upon many unknown factors. The Company could be forced to expend significant resources in the defense of these actions and may not prevail. The Company currently is not able to estimate the possible cost from these matters, as these actions are currently at an early stage, and the Company cannot be certain how long it may take to resolve these actions or the possible amount of any damages that the Company may be required to pay. Such amounts could be material to the Company's financial statements. The Company has not established any reserve for any potential liability relating to these actions. It is possible that the Company could, in the future, incur judgments or enter into settlements of claims for monetary damages.

Indemnification

In the ordinary course of business, the Company often includes standard indemnification provisions in its arrangements with third parties, including vendors, customers, investors, and the Company's directors and officers. Pursuant to these provisions, the Company may be obligated to indemnify such parties for losses or claims suffered or incurred. It is not possible to determine the maximum potential loss under these indemnification provisions due to the Company's limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. Historically, the Company has not incurred any significant costs as a result of such indemnifications.

8. Segment and Geographic Data

The Company operates as one operating segment. The Company's chief operating decision maker ("CODM") is its chief executive officer, who reviews financial information for purposes of making operating decisions, assessing financial performance and allocating resources. The Company's CODM evaluates financial information on a consolidated basis. As the Company operates as one operating segment, all required segment financial information is found in the condensed consolidated financial statements.

Long-lived assets by geographical region are based on the location of the legal entity that owns the assets. As of September 30, 2024 and December 31, 2023, there were no significant long-lived assets held by entities outside of the United States.

Revenue by geographical region is determined by location of the Company's customers. Revenue from customers outside of the United States was approximately 27% and 28% for each of the nine months ended September 30, 2024 and 2023, respectively. Revenue by geographical region is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Americas	$ 81,482	$ 67,052	$ 236,982	$ 188,475
EMEA	15,965	14,164	46,982	39,718
Asia Pacific	5,191	4,316	14,854	11,866
Total	$ 102,638	$ 85,532	$ 298,818	$ 240,059

9. Net Loss per Share

Basic net loss per share is calculated by dividing the net loss by the weighted average number of outstanding shares of common stock for each period. Diluted net loss per share is calculated by giving effect to all potential dilutive common stock equivalents, which includes stock options and restricted stock units. Because the Company incurred net losses each period, the basic and diluted calculations are the same. Basic and diluted net loss per share are the same for each class of common stock, as both Class A and Class B stockholders are entitled to the same liquidation and dividend rights.

The following table presents the calculation for basic and diluted net loss per share (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss attributable to common shareholders	$ (17,087)	$ (23,013)	$ (47,554)	$ (46,350)
Weighted average common shares outstanding	57,179,710	55,831,230	56,742,498	55,508,195
Net loss per share, basic and diluted	$ (0.30)	$ (0.41)	$ (0.84)	$ (0.83)

The following outstanding shares of common stock equivalents were excluded from the calculation of diluted net loss per share for each period, as the impact of including them would have been anti-dilutive.

	September 30,	
	2024	2023
Stock options outstanding	—	27,010
RSUs outstanding	4,904,516	3,820,734
Total potentially dilutive shares	4,904,516	3,847,744

10. Fair Value Measurements

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

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity.

The following tables present information about the Company's financial assets that are measured at fair value and indicate the fair value hierarchy of the valuation inputs used (in thousands):

	September 30, 2024			
	Level 1	Level 2	Level 3	Total
Marketable Securities:				
Corporate bonds	$ —	$ 8,125	$ —	$ 8,125
U.S. agency securities	—	500	—	500
Total assets	$ —	$ 8,625	$ —	$ 8,625

	December 31, 2023			
	Level 1	Level 2	Level 3	Total
Marketable Securities:				
Commercial paper	$ —	$ 33,287	$ —	$ 33,287
Corporate bonds	—	9,906	—	9,906
U.S. Treasury securities	—	495	—	495
U.S. agency securities	—	4,289	—	4,289
Asset-backed securities	—	367	—	367
Total assets	$ —	$ 48,344	$ —	$ 48,344

Marketable securities are classified within Level 2 because they are valued using inputs other than quoted prices that are directly or indirectly observable in the market.

The carrying amounts of certain financial instruments, including cash held in banks, cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, approximate fair value due to their short-term maturities and are excluded from the fair value tables above.

For the periods presented, the Company held investment-grade marketable securities which were accounted for as available-for-sale securities. As of September 30, 2024 and December 31, 2023, there was not a significant difference between the amortized cost and fair value of these securities. The gross unrealized gains and losses associated with these securities were immaterial in the periods presented.

The following table classifies our marketable securities by contractual maturity (in thousands):

	September 30, 2024	December 31, 2023
Due in one year or less	$ 8,625	$ 44,645
Due after one year and within two years	—	3,699
Total	$ 8,625	$ 48,344

11. Business Combinations

Tagger Media, Inc.

On August 2, 2023, the Company completed its acquisition of all the outstanding equity of Tagger, an influencer marketing and social intelligence platform. The Company acquired Tagger in order to expand into the influencer marketing category. Tagger's platform enables marketers to discover influencers, plan and manage campaigns, analyze competitor strategies, report on trends and measure return on investment.

The Company acquired Tagger for a total final purchase consideration of $ 144 million in cash, which incorporates the impact of various customary adjustments such as working capital, cash and indebtedness. The Company funded the purchase consideration with a combination of cash on hand and $75 million borrowed under the Facility further described in Note 5 - "Revolving Line of Credit" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report).

The excess of purchase consideration over the fair value of net assets acquired was recorded as goodwill, and is primarily attributable to expanded market opportunities from integrating the acquired developed technologies with the Company's offerings. The goodwill is not deductible for income tax purposes.

The fair values of the tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The allocation of fair value of purchase consideration was finalized in the second quarter of 2024.

The following table summarizes the fair values of assets acq uired and liabilities assumed as of the date of acquisition (in thousands):

		August 2, 2023
Cash and cash equivalents	$	4,648
Accounts receivable		2,979
Other current and noncurrent assets		932
Intangible assets		27,800
Accounts payable, accrued expenses and other liabilities		(1,758)
Deferred revenue		(3,243)
Net assets acquired, excluding Goodwill		31,358
Goodwill		112,405
Total consideration	$	143,763
Cash and cash equivalents acquired		(4,648)
Cash paid for acquisition of business, net of cash acquired	$	139,115

The Company engaged a third-party valuation expert to aid its analysis of the acquired identifiable intangible assets. All estimates, key assumptions and forecasts were either provided by or reviewed by the Company. While the Company chose to utilize a third-party valuation expert for assistance, the fair value analysis and related valuations reflect the conclusions of management and not those of any third party.

The fair values of the acquired technology and the trademark identified intangible assets were determined utilizing the relief from royalty method under the income approach. The fair values of the customer relationships were valued using the multi-period excess-earnings method. The Company applied judgment which involved the use of assumptions with respect to revenue growth rates, customer attrition rate, discount rate, royalty rate, obsolescence rate and total operating expenses.

Acquired intangible assets are being amortized over the estimated useful lives on a straight-line basis. The following table summarizes the estimated fair values (in thousands) and estimated useful lives for the identifiable intangible assets acquired as of the acquisition date:

	Fair Value	Expected Useful Life
Customer Relationships	$ 12,400	7 years
Acquired Technology	14,100	5 years
Trademark	1,300	5 years
	$ 27,800	

The Company has included the financial results of Tagger in its condensed consolidated financial statements from the date of acquisition. Separate financial results and pro forma financial information for Tagger have not been presented as the effect of this acquisition was not material to the Company's financial results.

Repustate, Inc.

On January 19, 2023, the Company completed the acquisition of all the outstanding equity of Repustate, Inc. The acquisition has increased the Company's power, breadth and automation of social listening, messaging, and customer care capabilities with added sentiment analysis, natural language processing (NLP) and artificial-intelligence (AI).

The total final purchase consideration for the acquisition was $8.3 million, consisting of approximately $6.8 million in cash paid at the closing of the acquisition and a holdback of $1.5 million in cash to be paid as purchase consideration after the one-year anniversary of the closing of the acquisition, assuming no claims by the Company against the holdback amount for post-closing purchase price adjustments or indemnification matters. The purchase price holdback was paid in full in January 2024.

The excess of purchase consideration over the fair value of net assets acquired was recorded as goodwill, and is primarily attributable to expected post-acquisition synergies from integrating the technology into Sprout's platform. The goodwill is not deductible for income tax purposes.

The fair values of the tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The allocation of fair value of purchase consideration was finalized in the fourth quarter of 2023.

The following table summarizes the fair values of assets acq uired and liabilities assumed as of the date of acquisition (in thousands):

	January 19, 2023
Cash and cash equivalents	$ 366
Intangible assets	1,800
Deferred tax liability	(477)
Other net tangible assets and liabilities assumed	(4)
Net assets acquired, excluding Goodwill	1,685
Goodwill	6,611
Total consideration	$ 8,296
Deferred consideration related to holdback	(1,498)
Cash and cash equivalents acquired	(366)
Cash paid for acquisition of business, net of cash acquired	$ 6,432

The following table summarizes the estimated fair values (in thousands) and estimated useful lives for the identifiable intangible assets acquired as of the acquisition date:

	Fair Value	Expected Useful Life
Customer Relationships	$ 200	1 year
Acquired Technology	1,600	5 years
	$ 1,800	

The Company has included the financial results of Repustate in its condensed consolidated financial statements from the date of acquisition. Separate financial results and pro forma financial information for Repustate have not been presented as the effect of this acquisition was not material to the Company's financial results.

Goodwill

The changes in the carrying amount of goodwill during the nine months ended September 30, 2024 were as follows (in thousands):

Goodwill balance as of December 31, 2023	$ 121,404
Purchase price allocation adjustment (Tagger)	(89)
Goodwill balance as of September 30, 2024	$ 121,315

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 our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report. This discussion contains forward-looking statements based upon current plans, expectations and beliefs involving risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under Part I—Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023, and in other parts of this Quarterly Report. See "Cautionary Note Regarding Forward-Looking Statements."

Overview

Sprout Social is a powerful, centralized platform that provides the critical business layer to unlock the massive commercial value of social media. We have made it increasingly easy to standardize on Sprout Social as the centralized system of record for social and to help customers maximize the value of this mission critical channel. Currently, approximately 30,000 customers across more than 100 countries rely on our platform.

Introduced in 2011, our cloud software brings together social messaging, data and workflows in a unified system of record, intelligence and action. Operating across major networks, including X (formerly known as Twitter), Facebook, Instagram, TikTok, Pinterest, LinkedIn, Google, Reddit, Glassdoor and YouTube, and commerce platforms Facebook Shops, Shopify and WooCommerce, we provide organizations with a centralized platform to manage their social media efforts across stakeholders and business functions. Virtually every aspect of business has been impacted by social media, from marketing, sales, commerce and public relations to customer service, product and strategy, creating a need for an entirely new category of software. We offer our customers a centralized, secure and powerful platform to manage this broad, complex channel effectively across their organization.

We generate revenue primarily from subscriptions to our social media management platform under a software-as-a-service model. Our subscriptions can range from monthly to one-year or multi-year arrangements and are generally non-cancellable during the contractual subscription term. Subscription revenue is recognized ratably over the contract terms beginning on the date the product is made available to customers, which typically begins on the commencement date of each contract. We also generate revenue from professional services related to our platform provided to certain customers, which is recognized at the time these services are provided to the customer. This revenue has historically represented less than 1% of our revenue and is expected to be immaterial for the foreseeable future.

Our tiered subscription-based model allows our customers to choose among three core plans to meet their needs. Each plan is licensed on a per user per month basis at prices dependent on the level of features offered. Additional product modules, which offer increased functionality depending on a customer's needs, can be purchased by the customer on a per user per month basis.

We generated revenue of $102.6 million and $85.5 million during the three months ended September 30, 2024 and 2023, respectively, representing growth of 20%. We generated revenue of $298.8 million and $240.1 million during the nine months ended September 30, 2024 and 2023, respectively, representing growth of 24%. In the nine months ended September 30, 2024, software subscriptions contributed 99% of our revenue.

We generated net losses of $17.1 million and $23.0 million during the three months ended September 30, 2024 and 2023, respectively, which included stock-based compensation expense of $23.2 million and $19.0 million, respectively. We generated net losses of $47.6 million and $46.4 million during the nine months ended September 30, 2024 and 2023, respectively, which included stock-based compensation expense of $61.9 million and $49.0 million, respectively. We expect to continue investing in the growth of our business and, as a result, generate net losses for the foreseeable future.

Impact of Macroeconomic Conditions

As a company with a global footprint, we are subject to risks and exposures caused by significant events and their macroeconomic impacts, including, but not limited to, high levels of inflation, high interest rates, ongoing overseas conflict, volatility in the capital markets and related market uncertainty. We continuously monitor the direct and indirect impacts, and the potential for future impacts, of these circumstances on our business and financial results, as well as the overall global economy and geopolitical landscape.

Our current and prospective customers are impacted by these macroeconomic conditions to varying degrees. Potentially as a result of these various macroeconomic impacts on our current and prospective customers, we periodically have experienced more measured buying behavior by current and prospective customers and lengthening of the average sales cycle for certain types of customers and sales (including sales to prospective customers and expansion sales to current customers), which have contributed to a slowdown in our revenue growth as compared to historical levels. We believe macroeconomic uncertainty could persist, and as a result, we expect that some or all of these negative trends may emerge or recur during future quarters.

Acquisition of Tagger Media, Inc.

On August 2, 2023, we completed our acquisition of all the outstanding equity of Tagger Media, Inc. ("Tagger"), for a total purchase consideration of $144 million. We acquired Tagger in order to expand into the influencer marketing category. Tagger's platform enables marketers to discover influencers, plan and manage campaigns, analyze competitor strategies, report on trends and measure return on investment. We funded the purchase consideration with a combination of cash on hand and $75 million borrowed under the revolving credit facility further described in Note 5 - "Revolving Line of Credit" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report).

The fair values of the tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The allocation of fair value of purchase consideration was finalized in the second quarter of 2024.

We have included the financial results of Tagger in our condensed consolidated financial statements from the date of acquisition. Refer to Note 11 - "Business Combinations" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for further discussion regarding the acquisition.

Acquisition of Repustate, Inc.

On January 19, 2023, we completed the acquisition of Repustate, Inc. for a total purchase consideration of $8.3 million, consisting of approximately $6.8 million in cash paid at the closing time of the acquisition and a holdback of $1.5 million in cash to be paid as purchase consideration after the one-year anniversary of the closing of the acquisition, assuming no claims by the Company against the holdback amount for post-closing purchase price adjustments or indemnification matters. The purchase price holdback was paid in full in January 2024.

The fair values of the tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions. The allocation of fair value of purchase consideration was finalized in the fourth quarter of 2023.

The Repustate acquisition has increased our power, breadth and automation of social listening, messaging, and customer care capabilities with added sentiment analysis, natural language processing (NLP) and artificial intelligence (AI). We have included the financial results of Repustate in our condensed consolidated financial statements from the date of acquisition. The impact of Repustate's financial results following the date of acquisition were not significant to Sprout's condensed consolidated financial statements. Refer to Note 11 - “Business Combinations” of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for further discussion.

Key Factors Affecting Our Performance

Acquiring new customers

We are focused on continuing to organically grow our customer base by increasing demand for our platform and penetrating our addressable market. We have invested, and expect to continue to invest, heavily in expanding our sales force and marketing efforts to acquire new customers. Currently, we have approximately 30,000 customers. For the nine months ended September 30, 2024, as compared to the nine months ended September 30, 2023, while our total number of customers have decreased, our number of customers contributing over $10,000 in ARR and $50,000 in ARR increased. In addition, as we continue to focus on expanding our enterprise customer base, we have experienced and expect to continue to experience longer and more expansive average sale cycles and increased pricing pressure, which may be exacerbated by the macroeconomic factors described above. We expect these trends to continue as we remain focused on our most sophisticated customers.

Expanding within our current customer base

We believe that there is a substantial and largely untapped opportunity for organic growth within our existing customer base. Customers often begin by purchasing a small number of user subscriptions and then expand over time, increasing the number of users or social profiles, as well as purchasing additional product modules. Customers may then expand use-cases between various departments to drive collaboration across their organizations. Our sales and customer success efforts include encouraging organizations to expand use-cases to more fully realize the value from the broader adoption of our platform throughout an organization. We will continue to invest in enhancing awareness of our brand, creating additional uses for our products and developing more products, features and functionality of existing products, which we believe are vital to achieving increased adoption of our platform. We have a history of attracting new customers and we have increased our focus on expanding their use of our platform over time.

Sustaining product and technology innovation

Our success is dependent on our ability to sustain product and technology innovation and maintain the competitive advantage of our proprietary technology. We continue to invest resources to enhance the capabilities of our platform by introducing new products, features and functionality of existing products.

International expansion

We see international expansion as a meaningful opportunity to grow our platform. Revenue generated from non-U.S. customers during the nine months ended September 30, 2024 was approximately 27% of our total revenue. We have teams in Ireland, Canada, the United Kingdom, Singapore, India, Australia, the Philippines and Poland to support our growth internationally. We believe global demand for our platform and offerings will continue to increase as awareness of our platform in international markets grows. We plan to continue adding to our local sales, customer support and customer success teams in select international markets over time.

Key Business Metrics

We review the following key business metrics to evaluate our business, measure our performance, identify trends, formulate financial projections and make strategic decisions. Consistent with our communications in previous quarters, we no longer believe that ARR and total number of customers are key performance indicators of Sprout Social’s business due to our evolving customer mix and we will no longer publicly disclose these metrics.

Number of customers contributing more than $10,000 in ARR

We define customers contributing more than $10,000 in ARR as those on a paid subscription plan that had more than $10,000 in ARR as of a period end.

We view the number of customers that contribute more than $10,000 in ARR as a measure of our ability to scale with our customers and attract larger organizations. We believe this represents potential for future growth, including expanding within our current customer base. Over time, larger customers have constituted a greater share of our revenue.

	As of September 30,	
	2024	2023
Number of customers contributing more than $10,000 in ARR	9,119	8,111

Number of customers contributing more than $50,000 in ARR

We define customers contributing more than $50,000 in ARR as those on a paid subscription plan that had more than $50,000 in ARR as of a period end.

We view the number of customers that contribute more than $50,000 in ARR as a measure of our ability to scale with our largest customers and attract more sophisticated organizations. We believe this represents potential for future growth, including expanding within our current customer base. Over time, our largest customers have constituted a greater share of our revenue.

	As of September 30,	
	2024	2023
Number of customers contributing more than $50,000 in ARR	1,610	1,252

While we no longer believe that ARR and total number of customers are key performance indicators of Sprout Social’s business, these metrics are necessary for an understanding of how we define number of customers contributing over $10,000 in ARR and number of customers contributing over $50,000 in ARR. For this purpose, we define ARR as the annualized revenue run-rate of subscription agreements from all customers as of the last date of the specified period and we define a customer as a unique account, multiple accounts containing a common non-personal email domain, or multiple accounts governed by a single agreement or entity.

Components of our Results of Operations

Revenue

Subscription

We generate revenue primarily from subscriptions to our social media management platform under a software-as-a-service model. Our subscriptions can range from monthly to one-year or multi-year arrangements and are generally non-cancellable during the contractual subscription term. Subscription revenue is recognized ratably over the contract terms beginning on the date our product is made available to customers, which typically begins on the commencement date of each contract. Our customers do not have the right to take possession of the online software solution. We also generate a small portion of our subscription revenue from third-party resellers.

Professional Services

We sell professional services consisting of, but not limited to, implementation fees, specialized training, one-time reporting services and recurring periodic reporting services. Professional services revenue is recognized at the time these services are provided to the customer. This revenue has historically represented less than 1% of our revenue and is expected to be immaterial for the foreseeable future.

Cost of Revenue

Subscription

Cost of revenue primarily consists of expenses related to hosting our platform and providing support to our customers. These expenses are comprised of fees paid to data providers, hosted data center costs and personnel costs directly associated with cloud infrastructure, customer success and customer support, including salaries, benefits, bonuses and allocated overhead. These costs also include depreciation expense and amortization expense related to acquired developed technologies that directly benefit sales. Overhead associated with facilities and information technology is allocated to cost of revenue and operating expenses based on headcount. Although we expect our cost of revenue to increase in absolute dollars as our business and revenue grows, we expect our cost of revenue to decrease as a percentage of our revenue over time.

Professional Services and Other

Cost of professional services primarily consists of expenses related to our professional services organization and are comprised of personnel costs, including salaries, benefits, bonuses and allocated overhead.

Gross Profit and Gross Margin

Gross margin is calculated as gross profit as a percentage of total revenue. Our gross margin may fluctuate from period to period based on revenue earned, the timing and amount of investments made to expand our hosting capacity, our customer support and professional services teams and in hiring additional personnel, and the impact of acquisitions. We expect our gross profit and gross margin to increase as our business grows over time.

Operating Expenses

Research and Development

Research and development expenses primarily consist of personnel costs, including salaries, benefits and allocated overhead. Research and development expenses also include depreciation expense and other expenses associated with product development. We plan to increase the dollar amount of our investment in research and development for the foreseeable future as we focus on developing new features and enhancements to our plan offerings.

Sales and Marketing

Sales and marketing expenses primarily consist of personnel costs directly associated with our sales and marketing department, online advertising expenses, as well as allocated overhead, including depreciation expense. Sales commissions and bonuses are considered incremental costs of obtaining a contract with a customer. Sales commissions are earned and recorded at contract commencement for both new customer contracts and expansion of contracts with existing customers. Sales commissions are deferred and amortized on a straight-line basis over the expected period of benefit, which we have determined to be five years. We plan to increase the dollar amount of our investment in sales and marketing for the foreseeable future, primarily for increased headcount for our sales department.

General and Administrative

General and administrative expenses primarily consist of personnel expenses associated with our finance, legal, human resources and other administrative employees. Our general and administrative expenses also include professional fees for external legal, accounting and other consulting services, amortization of intangible assets, depreciation and amortization expense, as well as allocated overhead. We expect to increase the size of our general and administrative functions to support the growth of our business. We expect the dollar amount of our general and administrative expenses to increase for the foreseeable future. However, we expect our general and administrative expenses to decrease as a percentage of revenue over time.

Interest Income (Expense), Net

Interest income (expense), net consists primarily of interest expense related to the Facility and is offset by interest income earned on our cash and investment balances.

Other Expense, Net

Other expense, net consists of foreign currency transaction gains and losses.

Income Tax Provision

The income tax provision consists of current and deferred taxes for our United States and foreign jurisdictions. We have historically reported a taxable loss in our most significant jurisdiction, the United States, and have a full valuation allowance against our deferred tax assets. We expect this trend to continue for the foreseeable future.

Results of Operations

The following tables set forth information comparing the components of our results of operations in dollars and as a percentage of total revenue for the periods presented.

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
	(in thousands)			
Revenue				
Subscription	$ 101,813	$ 84,802	$ 296,100	$ 238,234
Professional services and other	825	730	2,718	1,825
Total revenue	102,638	85,532	298,818	240,059
Cost of revenue[1]				
Subscription	22,928	19,874	67,211	54,479
Professional services and other	304	324	851	828
Total cost of revenue	23,232	20,198	68,062	55,307
Gross profit	79,406	65,334	230,756	184,752
Operating expenses				
Research and development[1]	26,272	20,057	75,167	56,889
Sales and marketing[1]	47,499	44,499	138,233	120,711
General and administrative[1]	22,514	24,982	64,035	58,206
Total operating expenses	96,285	89,538	277,435	235,806
Loss from operations	(16,879)	(24,204)	(46,679)	(51,054)
Interest expense	(851)	(1,147)	(2,869)	(1,210)
Interest income	1,007	1,651	3,095	5,811
Other expense, net	(110)	(293)	(773)	(650)
Loss before income taxes	(16,833)	(23,993)	(47,226)	(47,103)
Income tax expense (benefit)	254	(980)	328	(753)
Net loss	$ (17,087)	$ (23,013)	$ (47,554)	$ (46,350)

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
	(in thousands)			
Cost of revenue	$ 1,059	$ 971	$ 2,890	$ 2,329
Research and development	7,493	5,020	18,979	12,949
Sales and marketing	8,962	8,570	24,527	22,346
General and administrative	5,672	4,452	15,454	11,421
Total stock-based compensation	$ 23,186	$ 19,013	$ 61,850	$ 49,045

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(as a percentage of total revenue)			
Revenue				
Subscription	99 %	99 %	99 %	99 %
Professional services and other	1 %	1 %	1 %	1 %
Total revenue	100 %	100 %	100 %	100 %
Cost of revenue				
Subscription	22 %	23 %	22 %	23 %
Professional services and other	— %	— %	— %	— %
Total cost of revenue	23 %	24 %	23 %	23 %
Gross profit	77 %	76 %	77 %	77 %
Operating expenses				
Research and development	26 %	23 %	25 %	24 %
Sales and marketing	46 %	52 %	46 %	50 %
General and administrative	22 %	29 %	21 %	24 %
Total operating expenses	94 %	105 %	93 %	98 %
Loss from operations	(16)%	(28)%	(16)%	(21)%
Interest expense	(1)%	(1)%	(1)%	(1)%
Interest income	1 %	2 %	1 %	2 %
Other expense, net	— %	— %	— %	— %
Loss before income taxes	(16)%	(28)%	(16)%	(20)%
Income tax expense (benefit)	— %	(1)%	— %	— %
Net loss	(17)%	(27)%	(16)%	(19)%

Note: Certain amounts may not sum due to rounding

Three Months Ended September 30, 2024 Compared to Three Months Ended September 30, 2023

Revenue

	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
		(*dollars in thousands*)		
Revenue				
Subscription	$ 101,813	$ 84,802	$ 17,011	20 %
Professional services and other	825	730	95	13 %
Total revenue	$ 102,638	$ 85,532	$ 17,106	20 %
Percentage of Total Revenue				
Subscription	99 %	99 %		
Professional services and other	1 %	1 %		

The increase in subscription revenue was primarily driven by increased revenue from our highest tier customers. Customers contributing over $10,000 in ARR grew 12% versus the prior year and customers contributing over $50,000 in ARR grew 29% versus the prior year. The increase in new customers within the highest tiers was primarily driven by prioritizing our customer success and growth resources towards these customers and continuing to grow our sales force capacity to meet market demand.

Cost of Revenue and Gross Margin

	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
		(*dollars in thousands*)		
Cost of revenue				
Subscription	$ 22,928	$ 19,874	$ 3,054	15 %
Professional services and other	304	324	(20)	(6)%
Total cost of revenue	23,232	20,198	3,034	15 %
Gross profit	$ 79,406	$ 65,334	$ 14,072	22 %
Gross margin				
Total gross margin	77 %	76 %		

The increase in cost of subscription revenue for the three months ended September 30, 2024 compared to the three months ended September 30, 2023 was primarily due to the following:

	Change
	(*in thousands*)
Data provider fees	$ 1,322
Personnel costs	808
Amortization of intangible assets	235
Other	689
Subscription cost of revenue	$ 3,054

Fees paid to our data providers increased due to revenue growth. Personnel costs increased as we continue to invest in our customer support and customer success teams to support our customer growth. The increase in the amortization expense of intangible assets was driven by the acquired developed technology recognized as part of the Tagger acquisition. The increase in other was primarily driven by hosting fees.

Operating Expenses

Research and Development

	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
		(*dollars in thousands*)		
Research and development	$ 26,272	$ 20,057	$ 6,215	31 %
Percentage of total revenue	26 %	23 %		

The increase in research and development expense for the three months ended September 30, 2024 compared to the three months ended September 30, 2023 was primarily due to the following:

	Change
	(*in thousands*)
Personnel costs	$ 3,538
Stock-based compensation expense	2,473
Other	204
Research and development	$ 6,215

Personnel costs increased primarily as a result of a 15% increase in headcount to grow our research and development teams to drive our technology innovation through the development and maintenance of our platform. The increase in stock-based compensation expense was primarily due to the increased headcount.

Sales and Marketing

	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
		(*dollars in thousands*)		
Sales and marketing	$ 47,499	$ 44,499	$ 3,000	7 %
Percentage of total revenue	46 %	52 %		

The increase in sales and marketing expense for the three months ended September 30, 2024 compared to the three months ended September 30, 2023 was primarily due to the following:

	Change
	(*in thousands*)
Personnel costs	$ 4,711
Stock-based compensation expense	392
Other	552
Sales commission expense	(2,655)
Sales and marketing	$ 3,000

Personnel costs increased primarily as a result of a 9% increase in headcount as we continue to expand our sales teams to grow our customer base. The increase in stock-based compensation expense was primarily due to the increased headcount. The increase in other was primarily driven by various marketing events and initiatives. The decrease in sales commission expense was primarily driven by updating the period of benefit from three to five years which was accounted for as a change in accounting estimate. See Note 1 - "Nature of Operations and Summary of Significant Accounting Policies" for additional information on the change in accounting estimate.

General and Administrative

	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
		(*dollars in thousands*)		
General and administrative	$ 22,514	$ 24,982	$ (2,468)	(10)%
Percentage of total revenue	22 %	29 %		

The decrease in general and administrative expense for the three months ended September 30, 2024 compared to the three months ended September 30, 2023 was primarily due to the following:

	Change
	(*in thousands*)
Acquisition-related costs	$ (3,755)
Personnel costs	1,561
Stock-based compensation expense	1,220
Other	(1,494)
General and administrative	$ (2,468)

The decrease in acquisition-related costs was driven by costs associated with the Tagger acquisition in August 2023. Personnel costs and stock-based compensation expense increased primarily as a result of a 3% increase in headcount as we continue to grow our business.

Interest Income, Net

	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
			(*dollars in thousands*)	
Interest income (expense), net	$ 156	$ 504	$ (348)	(69)%
Percentage of total revenue	— %	1 %		

The decrease in interest income, net was primarily driven by higher interest expense from the Facility and lower interest income attributable to a lower balance of marketable securities.

Other Expense, Net

	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
			(*dollars in thousands*)	
Other expense, net	$ (110)	$ (293)	$ 183	(62)%
Percentage of total revenue	— %	— %		

The change in other expense, net was primarily driven by lower foreign exchange transaction losses.

Income Tax Expense (Benefit)

	Three Months Ended September 30,		Change	
	2024	2023	Amount	%
			(*dollars in thousands*)	
Income tax expense (benefit)	$ 254	$ (980)	$ 1,234	(126)%
Percentage of total revenue	— %	(1)%		

The change in income tax expense (benefit) was primarily driven by the income tax benefit recorded in the third quarter of 2023 due to a release of the Company’s valuation allowance resulting from deferred tax liabilities established for finite-lived intangible assets from the acquisition of Tagger.

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023

Revenue

	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
		(*dollars in thousands*)		
Revenue				
Subscription	$ 296,100	$ 238,234	$ 57,866	24 %
Professional services and other	2,718	1,825	893	49 %
Total revenue	$ 298,818	$ 240,059	$ 58,759	24 %
Percentage of Total Revenue				
Subscription	99 %	99 %		
Professional services and other	1 %	1 %		

The increase in subscription revenue was primarily driven by increased revenue from our highest tier customers. Customers contributing over $10,000 in ARR grew 12% versus the prior year and customers contributing over $50,000 in ARR grew 29% versus the prior year. The increase in new customers within the highest tiers was primarily driven by prioritizing our customer success and growth resources towards these customers and continuing to grow our sales force capacity to meet market demand.

Cost of Revenue and Gross Margin

	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
		(*dollars in thousands*)		
Cost of revenue				
Subscription	$ 67,211	$ 54,479	$ 12,732	23 %
Professional services and other	851	828	23	3 %
Total cost of revenue	68,062	55,307	12,755	23 %
Gross profit	$ 230,756	$ 184,752	$ 46,004	25 %
Gross margin				
Total gross margin	77 %	77 %		

The increase in cost of subscription revenue for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 was primarily due to the following:

	Change
	(*in thousands*)
Data provider fees	$ 6,846
Personnel costs	1,674
Amortization of intangible assets	1,645
Stock-based compensation expense	561
Other	2,006
Subscription cost of revenue	$ 12,732

Fees paid to our data providers increased due to revenue growth. Personnel costs increased as we continue to invest in our customer support and customer success teams to support our customer growth. The increase in the amortization expense of intangible assets was driven by the acquired developed technology recognized as part of the Tagger acquisition. The increase in stock-based compensation expense was primarily due to the increased headcount. The increase in other was primarily driven by hosting fees.

Operating Expenses

Research and Development

	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
	(*dollars in thousands*)			
Research and development	$ 75,167	$ 56,889	$ 18,278	32 %
Percentage of total revenue	25 %	24 %		

The increase in research and development expense for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 was primarily due to the following:

	Change
	(*in thousands*)
Personnel costs	$ 10,857
Stock-based compensation expense	6,030
Other	1,391
Research and development	$ 18,278

Personnel costs increased primarily as a result of a 15% increase in headcount to grow our research and development teams to drive our technology innovation through the development and maintenance of our platform. The increase in stock-based compensation expense was primarily due to the increased headcount.

Sales and Marketing

	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
	(*dollars in thousands*)			
Sales and marketing	$ 138,233	$ 120,711	$ 17,522	15 %
Percentage of total revenue	46 %	50 %		

The increase in sales and marketing expense for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 was primarily due to the following:

	Change
	(*in thousands*)
Personnel costs	$ 19,717
Stock-based compensation expense	2,181
Advertising	1,134
Other	1,905
Sales commission expense	(7,415)
Sales and marketing	$ 17,522

Personnel costs increased primarily as a result of a 9% increase in headcount as we continue to expand our sales teams to grow our customer base. The increase in stock-based compensation expense was primarily due to the increased headcount. The increase in other was primarily driven by various marketing events and initiatives. The decrease in sales commission expense was primarily driven by updating the period of benefit from three to five years which was accounted for as a change in accounting estimate. See Note 1 - "Nature of Operations and Summary of Significant Accounting Policies" for additional information on the change in accounting estimate.

General and Administrative

	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
	(*dollars in thousands*)			
General and administrative	$ 64,035	$ 58,206	$ 5,829	10 %
Percentage of total revenue	21 %	24 %		

The increase in general and administrative expense for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023 was primarily due to the following:

	Change
	(*in thousands*)
Personnel costs	$ 5,889
Stock-based compensation expense	4,033
Amortization of intangible assets	1,095
Acquisition-related costs	(4,221)
Other	(967)
General and administrative	$ 5,829

Personnel costs and stock-based compensation expense increased primarily as a result of a 3% increase in headcount as we continue to grow our business. The increase in the amortization expense of intangible assets was primarily driven by the intangible assets recognized as part of the Tagger acquisition. The decrease in acquisition-related costs was driven by costs associated with the Tagger acquisition in August 2023.

Interest Income, Net

	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
		(*dollars in thousands*)		
Interest income (expense), net	$ 226	$ 4,601	$ (4,375)	(95)%
Percentage of total revenue	— %	2 %		

The decrease in interest income, net was primarily driven by higher interest expense from the Facility and lower interest income attributable to a lower balance of marketable securities.

Other Expense, Net

	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
		(*dollars in thousands*)		
Other expense, net	$ (773)	$ (650)	$ (123)	19 %
Percentage of total revenue	— %	— %		

The change in other expense, net was primarily driven by foreign exchange transaction losses.

Income Tax Expense (Benefit)

	Nine Months Ended September 30,		Change	
	2024	2023	Amount	%
		(*dollars in thousands*)		
Income tax expense (benefit)	$ 328	$ (753)	$ 1,081	(144)%
Percentage of total revenue	— %	— %		

The change in income tax expense (benefit) was primarily driven by the income tax benefit recorded in the third quarter of 2023 due to a release of the Company's valuation allowance resulting from deferred tax liabilities established for finite-lived intangible assets from the acquisition of Tagger.

Non-GAAP Financial Measures

In addition to our results determined in accordance with U.S. generally accepted accounting principles, or GAAP, we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the below non-GAAP financial information, collectively, to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance by excluding certain items that may not be indicative of our business, operating results or future outlook.

However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. In addition, other companies, including companies in our industry, may calculate non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

Non-GAAP Gross Profit

We define non-GAAP gross profit as GAAP gross profit, excluding stock-based compensation expense and amortization expense associated with the acquired developed technology from the Tagger acquisition. We believe non-GAAP gross profit provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as it eliminates the effect of stock-based compensation and amortization expense, which are often unrelated to overall operating performance. In 2023, we revised our definition of non-GAAP gross profit to exclude amortization expense associated with the acquired developed technology from the Tagger acquisition.

Reconciliation of Non-GAAP gross profit	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
	(dollars in thousands)			
Gross profit	$ 79,406	$ 65,334	$ 230,756	$ 184,752
Stock-based compensation expense	1,059	971	2,890	2,329
Amortization of acquired developed technology	705	470	2,115	470
Non-GAAP gross profit	$ 81,170	$ 66,775	$ 235,761	$ 187,551

Non-GAAP Operating Income (Loss)

We define non-GAAP operating income (loss) as GAAP loss from operations, excluding stock-based compensation expense, acquisition-related expenses and amortization expense associated with the acquired intangible assets from the Tagger acquisition. We believe non-GAAP operating income (loss) provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as it eliminates the effect of stock-based compensation, acquisition-related expenses and amortization expense, which are often unrelated to overall operating performance. In 2023, we revised our definition of non-GAAP operating income (loss) to exclude acquisition-related expenses in connection with the Tagger acquisition and amortization expense associated with the acquired intangible assets from the Tagger acquisition.

Reconciliation of Non-GAAP operating income (loss)	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
	(dollars in thousands)			
Loss from operations	$ (16,879)	$ (24,204)	$ (46,679)	$ (51,054)
Stock-based compensation expense	23,186	19,013	61,850	49,045
Acquisition-related expenses	—	3,755	—	4,221
Amortization of acquired intangible assets	1,213	809	3,639	809
Non-GAAP operating income (loss)	$ 7,520	$ (627)	$ 18,810	$ 3,021

Non-GAAP Net Income (Loss)

We define non-GAAP net income (loss) as GAAP net loss, excluding stock-based compensation expense, acquisition-related expenses, amortization expense associated with the acquired intangible assets from the Tagger acquisition and tax benefits due to changes in valuation allowances from business acquisitions. We believe non-GAAP net income (loss) provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as this non-GAAP financial measure eliminates the effect of stock-based compensation, acquisition-related expenses, amortization expense and tax benefits due to changes in valuation allowances from business acquisitions, which are often unrelated to overall operating performance. In 2023, we revised our definition of non-GAAP net income (loss) to exclude acquisition-related expenses in connection with the Tagger acquisition, amortization expense associated with the acquired intangible assets from the Tagger acquisition and tax benefits recognized from changes in the valuation allowance associated with our acquisition of Tagger.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Reconciliation of Non-GAAP net income (loss)	*(dollars in thousands)*			
Net loss	$ (17,087)	$ (23,013)	$ (47,554)	$ (46,350)
Stock-based compensation expense	23,186	19,013	61,850	49,045
Acquisition-related expenses	—	3,755	—	4,221
Amortization of acquired intangible assets	1,213	809	3,639	809
Tax benefit due to change in valuation allowance from business acquisition	—	(1,134)	—	(1,134)
Non-GAAP net income (loss)	$ 7,312	$ (570)	$ 17,935	$ 6,591

Non-GAAP Net Income (Loss) per Share

We define non-GAAP net income (loss) per share as GAAP net loss per share attributable to common shareholders, basic and diluted, excluding stock-based compensation expense, acquisition-related expenses, amortization expense associated with the acquired intangible assets from the Tagger acquisition and tax benefits due to changes in valuation allowances from business acquisitions. We believe non-GAAP net income (loss) per share provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as this non-GAAP financial measure eliminates the effect of stock-based compensation, acquisition-related expenses, amortization expense and tax benefits due to changes in valuation allowances from business acquisitions, which are often unrelated to overall operating performance. In 2023, we revised our definition of non-GAAP net income (loss) per share to exclude acquisition-related expenses in connection with the Tagger acquisition, amortization expense associated with the acquired intangible assets from the Tagger acquisition and tax benefits recognized from changes in the valuation allowance associated with our acquisition of Tagger.

Reconciliation of Non-GAAP net income (loss) per share	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Net loss per share attributable to common shareholders, basic and diluted	$ (0.30)	$ (0.41)	$ (0.84)	$ (0.83)
Stock-based compensation expense per share	0.41	0.34	1.10	0.88
Acquisition-related expenses	—	0.07	—	0.08
Amortization of acquired intangible assets	0.02	0.01	0.06	0.01
Tax benefit due to change in valuation allowance from business acquisition	—	(0.02)	—	(0.02)
Non-GAAP net income (loss) per share	$ 0.13	$ (0.01)	$ 0.32	$ 0.12

Non-GAAP Free Cash Flow

We define non-GAAP free cash flow as net cash provided by operating activities less expenditures for property and equipment, acquisition-related costs and interest. Non-GAAP free cash flow does not reflect our future contractual obligations or represent the total increase or decrease in our cash balance for a given period. We believe that non-GAAP free cash flow is a useful indicator of liquidity that provides information to management and investors about the amount of cash used in our core operations that, after the expenditures for property and equipment, acquisition-related costs and interest, is available to be used for strategic initiatives. For example, if non-GAAP free cash flow is negative, we may need to access cash reserves or other sources of capital to invest in strategic initiatives. In 2023, we revised our definition of non-GAAP free cash flow to exclude payments related to acquisition-related costs associated with our acquisition of Tagger and cash paid for interest on our revolving line of credit.

Reconciliation of Non-GAAP free cash flow	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
	(dollars in thousands)			
Net cash provided by operating activities	$ 8,952	$ (5,518)	$ 22,179	$ 9,060
Expenditures for property and equipment	(477)	(800)	(2,062)	(1,444)
Acquisition-related costs	—	2,906	—	2,906
Interest paid on credit facility	836	—	3,014	—
Non-GAAP free cash flow	$ 9,311	$ (3,412)	$ 23,131	$ 10,522

Liquidity and Capital Resources

As of September 30, 2024, our principal sources of liquidity were cash and cash equivalents of $82.9 million, marketable securities of $8.6 million and net accounts receivable of $54.4 million. Historically, we have generated losses from operations as evidenced by our accumulated deficit and in previous years, we had negative cash flows from operations. However, for the nine months ended September 30, 2024 and 2023, we generated positive cash flows from operations. We expect to continue to incur operating losses for the foreseeable future as we continue to grow the business. We may experience greater than anticipated operating losses in the short- and long-term due to macroeconomic, financial, and other factors that are beyond our control, such as high inflation rates and a potential recession. The impact of these factors on our customers and our operations going forward remains uncertain, and we continue to proactively monitor our liquidity position.

Prior to our IPO in December 2019, we financed our operations primarily through private issuance of equity securities and line of credit borrowings. In our IPO, we received net proceeds of $134.3 million after deducting underwriting discounts and commissions of $10.5 million and offering expenses of $5.2 million. We subsequently received an additional $10.0 million of net proceeds after deducting underwriting discounts and commissions in January 2020 as a result of the over-allotment option exercise by the underwriters of our IPO. In August 2020, we received $42.1 million of net proceeds from our equity follow-on offering after deducting underwriting discounts and commissions. As described below, in August 2023, we borrowed $75 million under the Facility in connection with the Tagger acquisition. Our principal uses of cash in recent periods have been to fund operations, pay for acquisitions, invest in marketable securities, pay down our Facility, and invest in capital expenditures.

We believe our existing cash and cash equivalents will be sufficient to meet our operating and capital needs for at least the next 12 months. We believe we will meet longer-term expected future cash requirements and obligations through a combination of cash flows from operating activities, available cash and investment balances and potential future equity or debt transactions. Our future capital requirements will depend on many factors, including our subscription growth rate, subscription renewal activity, billing frequency, the impact of macroeconomic conditions on our customers and our operations, the timing and extent of spending to support our research and development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced product offerings, and the continuing market acceptance of our product. We have in the past, and may in the future, enter into arrangements to acquire or invest in complementary businesses, products and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations, our business, results of operations and financial condition could be adversely affected.

Credit Agreement

On August 1, 2023, we entered into a Credit Agreement (the “Credit Agreement”) by and among the Company, the banks and other financial institutions or entities party thereto as lenders and MUFG Bank, LTD. as administrative agent and collateral agent. The Credit Agreement provides for a $100 million senior secured revolving credit facility (the “Facility”), maturing on August 1, 2028. Borrowings under the Facility may be used to finance acquisitions and other investments permitted under the terms of the Credit Agreement, to pay related fees and expenses and for general corporate purposes.

Borrowings under the Facility may be designated as SOFR Loans or ABR Loans (each as defined in the Credit Agreement), subject to certain terms and conditions under the Credit Agreement, and bear interest at a rate of either (i) SOFR (subject to a 1.0% floor), plus 0.10%, plus a margin ranging from 2.75% to 3.25% based on the Company’s liquidity or (ii) ABR (subject to a 2.0% floor) plus a margin ranging from 1.75% to 2.25% based on the Company’s liquidity. The Facility also includes a quarterly commitment fee on the unused portion of the Facility of 0.30% or 0.35% based on the Company’s liquidity.

The Credit Agreement includes customary conditions to credit extensions, affirmative and negative covenants, and customary events of default. In addition, the Credit Agreement contains financial covenants as to (i) minimum liquidity, requiring the maintenance, at all times and measured at the end of each fiscal quarter, of cash and cash equivalents of not less than the greater of (x) $30 million and (y) 30% of the total revolving commitments, and (ii) minimum recurring revenue growth, requiring recurring revenue growth for the trailing four fiscal quarter period, measured at the end of each fiscal quarter, of not less than 115% of the actual recurring revenue for the same period in the prior fiscal year.

On August 1, 2023, we borrowed $75 million under the Credit Agreement in connection with the Tagger acquisition. As of September 30, 2024, $30 million remains outstanding under the Credit Agreement. Refer to Note 11 - “Business Combinations” of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for further discussion.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Nine Months Ended September 30,	
	2024	2023
	(in thousands)	
Net cash provided by operating activities	$ 22,179	$ 9,060
Net cash provided by (used in) investing activities	36,714	(118,806)
Net cash (used in) provided by financing activities	(25,733)	73,790
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 33,160	$ (35,956)

Operating Activities

Our largest source of operating cash is cash collections from our customers for subscription services. Our primary uses of cash from operating activities are for personnel costs across the sales and marketing and research and development departments and hosting costs. In previous years, we have generated negative cash flows from operating activities. However, for the nine months ended September 30, 2024 and 2023, we generated positive cash flows from operating activities.

Net cash provided by operating activities during the nine months ended September 30, 2024 was $22.2 million, which resulted from a net loss of $47.6 million adjusted for non-cash charges of $83.6 million and net cash outflow of $13.9 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of $61.9 million of stock-based compensation expense, $11.6 million for amortization of deferred contract acquisition costs, which were primarily commissions, $7.5 million of depreciation and intangible asset amortization expense and $1.4 million of amortization of right-of-use, or ROU, operating lease assets. The net cash outflow from changes in operating assets and liabilities was primarily the result of a $21.1 million increase in deferred commissions due to the addition of new customers and expansion of the business, a $4.7 million increase in prepaid expenses and other assets, a $2.9 million decrease in operating lease liabilities and a $1.5 million decrease in accounts payable and accrued expenses. These outflows were primarily offset by a $8.8 million increase in deferred revenue and a $7.7 million decrease in accounts receivable.

Net cash provided by operating activities during the nine months ended September 30, 2023 was $9.1 million, which resulted from a net loss of $46.4 million adjusted for non-cash charges of $71.2 million and net cash outflow of $15.8 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of $49.0 million of stock-based compensation expense, $19.1 million for amortization of deferred contract acquisition costs, which were primarily commissions, $1.1 million of amortization of right-of-use, or ROU, operating lease assets, and $4.2 million of depreciation and intangible asset amortization expense. The net cash outflow from changes in operating assets and liabilities was primarily the result of a $26.0 million increase in deferred commissions due to the addition of new customers and expansion of the business, a $3.5 million increase in prepaid expenses and other assets, a $2.6 million decrease in operating lease liabilities, and a $7.7 million increase in accounts receivable. These outflows were primarily offset by a $23.9 million increase in deferred revenue.

Investing Activities

Net cash provided by investing activities for the nine months ended September 30, 2024 was $36.7 million, which was primarily due to $40.2 million in proceeds from the maturities of marketable securities and $0.1 million consideration received related to a purchase price adjustment from the Tagger acquisition, partially offset by $2.1 million in purchases of computer equipment and hardware and the $1.5 million payout of the Repustate acquisition purchase price holdback.

Net cash used in investing activities for the nine months ended September 30, 2023 was $118.8 million, which was primarily due to $145.8 million paid for the acquisitions of Tagger and Repustate and $63.1 million in purchases of marketable securities, partially offset by $91.5 million in proceeds from the maturities and sale of marketable securities.

Financing Activities

Net cash used in financing activities for the nine months ended September 30, 2024 was $25.7 million, primarily driven by $25.0 million in repayments of the Facility and $2.0 million in payments related to employee withholding taxes as a result of the net settlement of stock-based awards, partially offset by $1.2 million in proceeds from purchases under our employee stock purchase plan.

Net cash provided by financing activities for the nine months ended September 30, 2023 was $73.8 million, primarily driven by $75.0 million in borrowings under the Facility and $1.4 million in proceeds from purchases under our employee stock purchase plan, partially offset by $1.8 million in payments related to employee withholding taxes as a result of the net settlement of stock-based awards and $0.8 million in issuance costs related to the Facility.

Contractual Obligations

As of September 30, 2024, we have non-cancellable contractual obligations related primarily to operating leases and minimum guaranteed purchase commitments for data and services. As of September 30, 2024, the total obligation for operating leases was $18.9 million, of which $4.4 million is expected to be paid in the next twelve months. As of September 30, 2024, our purchase commitment for primarily data and services was $12.3 million, of which $7.7 million is expected to be paid in the next twelve months. See Note 3 - “Operating Leases” and Note 7 - “Commitments and Contingencies” of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for more information regarding these obligations.

Recent Accounting Pronouncements

Refer to section titled “Summary of Significant Accounting Policies” in Note 1 of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for more information.

Critical Accounting Policies and Estimates

Our unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates.

Our significant accounting policies are discussed in Note 1 - “Nature of Operations and Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements as of and for the year ended December 31, 2023 included in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 23, 2024. There have been no significant changes to these policies during the nine months ended September 30, 2024, except as noted in Note 1 of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report).

Item 3. Quantitative and Qualitative Disclosures of Market Risk

Interest Rate Risk

We had cash and cash equivalents totaling $82.9 million as of September 30, 2024, the majority of which was invested in money market accounts and money market funds. We also had marketable securities of $8.6 million which were invested in investment-grade corporate bonds and U.S. agency securities. Such interest-earning instruments carry a degree of interest rate risk with respect to the interest income generated. Additionally, certain of these cash investments are maintained at balances beyond Federal Deposit Insurance Corporation, or FDIC, coverage limits or are not insured by the FDIC. Accordingly, there may be a risk that we will not recover the full principal of our cash investments. To date, fluctuations in interest income have not been significant. Because these accounts are highly liquid, we do not have material exposure to market risk. Our cash is held for working capital purposes. We do not enter into investments for trading or speculative purposes.

As of September 30, 2024, we had $30 million in secured indebtedness outstanding under the Credit Agreement. The revolving line of credit bears interest at a rate of either (i) SOFR (subject to a 1.0% floor), plus 0.10%, plus a margin ranging from 2.75% to 3.25% based on the Company’s liquidity or (ii) ABR (subject to a 2.0% floor) plus a margin ranging from 1.75% to 2.25% based on the Company’s liquidity. Refer to Note 5 - “Revolving Line of Credit” of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report).

We have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

Foreign Currency Exchange Risk

We are not currently subject to significant foreign currency exchange risk as our U.S. and international sales are predominantly denominated in U.S. dollars. However, we have some foreign currency risk related to a small amount of sales denominated in Canadian dollars. Sales denominated in Canadian dollars reflect the prevailing U.S. dollar exchange rate on the date of invoice for such sales. Decreases in the relative value of the U.S. dollar to the Canadian dollar may negatively affect revenue and other operating results as expressed in U.S. dollars. We do not believe that an immediate 10% increase or decrease in the relative value of the U.S. dollar to the Canadian dollars would have a material effect on operating results.

We have not engaged in the hedging of foreign currency transactions to date. However, as our international operations expand, our foreign currency exchange risk may increase. If our foreign currency exchange risk increases in the future, we may evaluate the costs and benefits of initiating a foreign currency hedge program in connection with non-U.S. dollar denominated transactions.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of September 30, 2024. Based on such evaluation, our CEO and CFO have concluded that as of September 30, 2024, our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal controls

There have been no changes in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

Inherent Limitations of Internal Controls

In designing and evaluating the disclosure controls and procedures and internal control over financial reporting, management does not expect that our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within our company will have been detected.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 7 - "Commitments and Contingencies" of the Notes to the Financial Statements (Part I, Item 1 of this Quarterly Report) for information regarding certain legal proceedings in which we are involved, which is incorporated by reference into this Part II, Item 1.

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

None.

Item 5. Other Information.

Securities Trading Plans of Directors and Executive Officers

During the fiscal quarter ended September 30, 2024, the following directors and officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted, modified or terminated "Rule 10b5-1 trading arrangements" (as defined in Item 408 of Regulation S-K of the Exchange Act), which are intended to satisfy the affirmative defense conditions under 10b5-1(c) under the Exchange Act:

Name and Position	Action (Adoption / Termination)	Adoption / Termination Date	Type of Trading Arrangement: Rule 10b5-1*	Type of Trading Arrangement: Non-Rule 10b5-1**	Total Shares and Class of Common Stock to be Sold	Expiration Date
Justyn Howard, ***Executive Chair & Member of the Board of Directors***	Adoption	9/12/2024	X		480,000 shares of Class A and Class B Common Stock(1)	11/5/2025
Ryan Barretto, ***Chief Executive Officer & Member of the Board of Directors***	Adoption	8/20/2024	X		67,200 shares of Class A Common Stock(1)	12/31/2025
Joe Del Preto, ***Chief Financial Officer & Treasurer***	Adoption	8/20/2024	X		18,000 shares of Class A Common Stock	11/5/2025
Karen Walker, ***Member of the Board of Directors***	Adoption	9/13/2024	X		20,000 shares of Class A Common Stock	12/12/2025

* Contract, instruction or written plan intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) under the Exchange Act.

** "Non-Rule 10b5-1 trading arrangement" as defined in Item 408(c) of Regulation S-K under the Exchange Act.

(1) All or a portion of the sale of these shares is subject to limit orders, which may result in all or a portion of such shares remaining unsold.

Our officers (as defined in Rule 16a-1(f) under the Exchange Act), other than Mr. Howard, have entered into sell-to-cover arrangements, which constitute "non-Rule 10b5-1 trading arrangements," authorizing the pre-arranged sale of shares to satisfy tax withholding obligations of the Company arising exclusively from the vesting of restricted stock units and the related issuance of shares. The amount of shares to be sold to satisfy the Company's tax withholding obligations under these arrangements is dependent on future events which cannot be known at this time, including the future trading price of the Company's Class A common stock. The expiration date relating to these arrangements is dependent on future events which cannot be known at this time, including the final vest date of the applicable restricted stock units and the officer's termination of service.

Item 6. Exhibits

INDEX TO EXHIBITS

3.1	Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to Sprout Social's Current Report on form 8-K (File No. 001-39156) filed on December 17, 2019).
3.2	Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.1 to Sprout Social's Current Report on form 8-K (File No. 001-39156) filed on October 31, 2022).
10.1**	Offer Letter, dated September 30, 2024, between the Company and Ryan Barretto (Incorporated by reference to Exhibit 10.1 to Sprout Social's Current Report on Form 8-K/A filed on October 1, 2024).
10.2**	Amended and Restated Executive Employment Agreement, dated September 30, 2024, between the Company and Justyn Howard (Incorporated by reference to Exhibit 10.2 to Sprout Social's Current Report on Form 8-K/A filed on October 1, 2024).
31.1	Certifications of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certifications of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certifications of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following information from our Quarterly Report on Form 10-Q for the quarter ended September 30, 2024, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements
104	The cover page from the Quarterly Report on Form 10-Q, formatted as Inline XBRL.

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* Furnished, not filed.
** Management contract or compensatory plan or arrangement.

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SIGNATURE

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.

		Sprout Social, Inc.
November 8, 2024	By:	/s/ Joe Del Preto
		Joe Del Preto
		Chief Financial Officer and Treasurer (Principal Financial and Principal Accounting Officer)

CERTIFICATION

I, Ryan Barretto, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprout Social, 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 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 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.

SPROUT SOCIAL, INC.

By:	/s/ Ryan Barretto
Name:	Ryan Barretto
Title:	Chief Executive Officer and Member of the Board of Directors

Date: November 8, 2024

CERTIFICATION

I, Joe Del Preto, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprout Social, 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 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 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.

SPROUT SOCIAL, INC.

By:	/s/ Joe Del Preto
Name:	Joe Del Preto
Title:	Chief Financial Officer and Treasurer

Date: November 8, 2024

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sprout Social, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ryan Barretto, Chief Executive Officer and Member of the Board of Directors, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

SPROUT SOCIAL, INC.

By:	/s/ Ryan Barretto
Name:	Ryan Barretto
Title:	Chief Executive Officer and Member of the Board of Directors

Date: November 8, 2024

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Sprout Social, 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 the Form 10-Q), irrespective of any general incorporation language contained in such filing.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sprout Social, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joe Del Preto, Chief Financial Officer and Treasurer, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

SPROUT SOCIAL, INC.

By:	/s/ Joe Del Preto
Name:	Joe Del Preto
Title:	Chief Financial Officer and Treasurer

Date: November 8, 2024

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Sprout Social, 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 the Form 10-Q), irrespective of any general incorporation language contained in such filing.