

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 June 30, 2024

OR

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

For the transition period from _____ to _____

Commission File Number: 001-37496

RAPID7, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

35-2423994
(I.R.S. Employer
Identification No.)

120 Causeway Street
Boston, MA
(Address of principal executive offices)

02114
(Zip Code)

Registrant's telephone number, including area code: (617) 247-1717

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	RPD	The Nasdaq Global Market

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

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Small Reporting Company	<input type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

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

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

As of July 31, 2024, there were 62,734,157 shares of the registrant's common stock, \$0.01 par value per share, outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

RAPID7, INC.
Condensed Consolidated Balance Sheets (Unaudited)
(in thousands, except share and per share data)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 236,975	\$ 213,629
Short-term investments	205,671	169,544
Accounts receivable, net of allowance for credit losses of \$ 1,380 and \$951 at June 30, 2024 and December 31, 2023, respectively	143,671	164,862
Deferred contract acquisition and fulfillment costs, current portion	48,880	45,008
Prepaid expenses and other current assets	39,194	41,407
Total current assets	674,391	634,450
Long-term investments	51,434	56,171
Property and equipment, net	34,884	39,642
Operating lease right-of-use assets	50,645	54,693
Deferred contract acquisition and fulfillment costs, non-current portion	74,693	76,601
Goodwill	536,351	536,351
Intangible assets, net	84,019	94,546
Other assets	20,176	12,894
Total assets	\$ 1,526,593	\$ 1,505,348
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 12,820	\$ 15,812
Accrued expenses and other current liabilities	67,242	85,025
Convertible senior notes, current portion, net	45,737	—
Operating lease liabilities, current portion	15,592	13,452
Deferred revenue, current portion	437,222	455,503
Total current liabilities	578,613	569,792
Convertible senior notes non-current portion, net	886,272	929,996
Operating lease liabilities, non-current portion	73,425	81,130
Deferred revenue, non-current portion	27,512	32,577
Other long-term liabilities	13,691	10,032
Total liabilities	\$ 1,579,513	\$ 1,623,527
Stockholders' deficit:		
Preferred stock, \$0.01 par value per share; 100,000,000 shares authorized at June 30, 2024 and December 31, 2023; 0 shares issued and outstanding at June 30, 2024 and December 31, 2023	\$ —	\$ —
Common stock, \$0.01 par value per share; 100,000,000 shares authorized at June 30, 2024 and December 31, 2023; 63,271,273 and 62,283,630 shares issued at June 30, 2024 and December 31, 2023, respectively; 62,701,694 and 61,714,051 shares outstanding at June 30, 2024 and December 31, 2023, respectively	627	617
Treasury stock, at cost, 569,579 shares at June 30, 2024 and December 31, 2023	(4,765)	(4,765)
Additional paid-in-capital	951,621	894,630
Accumulated other comprehensive (loss) income	(851)	1,344
Accumulated deficit	(999,552)	(1,010,005)
Total stockholders' deficit	(52,920)	(118,179)
Total liabilities and stockholders' deficit	\$ 1,526,593	\$ 1,505,348

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

RAPID7, INC.
Condensed Consolidated Statements of Operations (Unaudited)
(in thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Revenue:				
Product subscriptions	\$ 200,067	\$ 181,701	\$ 396,985	\$ 355,473
Professional services	7,924	8,721	16,107	18,123
Total revenue	207,991	190,422	413,092	373,596
Cost of revenue:				
Product subscriptions	54,982	51,148	109,637	99,336
Professional services	5,866	7,016	12,114	14,827
Total cost of revenue	60,848	58,164	121,751	114,163
Total gross profit	147,143	132,258	291,341	259,433
Operating expenses:				
Research and development	40,056	50,762	81,046	97,108
Sales and marketing	77,795	83,036	150,600	163,623
General and administrative	22,412	22,888	42,247	47,095
Impairment of long-lived assets	—	27,231	—	27,231
Total operating expenses	140,263	183,917	273,893	335,057
Income (loss) from operations	6,880	(51,659)	17,448	(75,624)
Other income (expense), net:				
Interest income	5,221	1,787	9,941	3,455
Interest expense	(2,673)	(2,773)	(5,343)	(5,490)
Other expense, net	(695)	(13,268)	(2,130)	(13,575)
Income (loss) before income taxes	8,733	(65,913)	19,916	(91,234)
Provision for income taxes	538	869	9,463	1,463
Net income (loss)	\$ 8,195	\$ (66,782)	\$ 10,453	\$ (92,697)
Net income (loss) per share, basic	\$ 0.13	\$ (1.10)	\$ 0.17	\$ (1.54)
Net income (loss) per share, diluted	\$ 0.11	\$ (1.10)	\$ 0.14	\$ (1.54)
Weighted-average common shares outstanding, basic	62,496,289	60,470,396	62,201,182	60,180,954
Weighted-average common shares outstanding, diluted	74,250,360	60,470,396	74,135,121	60,180,954

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

RAPID7, INC.
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income (loss)	\$ 8,195	\$ (66,782)	\$ 10,453	\$ (92,697)
Other comprehensive income (loss):				
Change in fair value of cash flow hedges	(329)	447	(958)	639
Adjustment for net (gains)/losses realized on cash flow hedges and included in net income (loss), net of taxes	(92)	(61)	(473)	580
Total change in unrealized (losses) gains on cash flow hedges	(421)	386	(1,431)	1,219
Change in unrealized (losses) gains on investments	(209)	64	(764)	442
Total other comprehensive (loss) income	(630)	450	(2,195)	1,661
Comprehensive income (loss)	\$ 7,565	\$ (66,332)	\$ 8,258	\$ (91,036)

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

RAPID7, INC.
Condensed Consolidated Statements of Changes in Stockholders' Deficit (Unaudited)
Three Months Ended June 30, 2024 and 2023
(in thousands)

	Common stock		Treasury stock		Additional paid-in-capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' deficit
	Shares	Amount	Shares	Amount				
Balance, March 31, 2024	62,269	\$ 623	570	\$ (4,765)	\$ 925,661	\$ (221)	\$ (1,007,747)	\$ (86,449)
Stock-based compensation expense	—	—	—	—	27,155	—	—	27,155
Vesting of restricted stock units	457	5	—	—	(5)	—	—	—
Shares withheld for employee taxes	(33)	—	—	—	(1,326)	—	—	(1,326)
Issuance of common stock upon exercise of stock options	9	—	—	—	135	—	—	135
Other comprehensive loss	—	—	—	—	—	(630)	—	(630)
Net income	—	—	—	—	—	—	8,195	8,195
Balance, June 30, 2024	62,702	\$ 628	570	\$ (4,765)	\$ 951,620	\$ (851)	\$ (999,552)	\$ (52,920)

	Common stock		Treasury stock		Additional paid-in-capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' deficit
	Shares	Amount	Shares	Amount				
Balance, March 31, 2023	60,322	\$ 603	570	\$ (4,765)	\$ 780,850	\$ (200)	\$ (886,660)	\$ (110,172)
Stock-based compensation expense	—	—	—	—	31,276	—	—	31,276
Vesting of restricted stock units	442	4	—	—	(4)	—	—	—
Shares withheld for employee taxes	(28)	—	—	—	(1,324)	—	—	(1,324)
Issuance of common stock upon exercise of stock options	171	2	—	—	2,499	—	—	2,501
Issuance of common stock in relation to an acquisition	33	—	—	—	—	—	—	—
Reclassification of 2023 capped calls from equity to derivative asset	—	—	—	—	33,029	—	—	33,029
Other comprehensive gain	—	—	—	—	—	450	—	450
Net loss	—	—	—	—	—	—	(66,782)	(66,782)
Balance, June 30, 2023	60,940	\$ 609	570	\$ (4,765)	\$ 846,326	\$ 250	\$ (953,442)	\$ (111,022)

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

RAPID7, INC.
Condensed Consolidated Statements of Changes in Stockholders' Deficit (Unaudited)
Six Months Ended June 30, 2024 and 2023
(in thousands)

	Common stock		Treasury stock		Additional paid-in-capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' deficit
	Shares	Amount	Shares	Amount				
Balance, December 31, 2023	61,714	\$ 617	570	\$ (4,765)	\$ 894,630	\$ 1,344	\$ (1,010,005)	\$ (118,179)
Stock-based compensation expense	—	—	—	—	53,642	—	—	53,642
Issuance of common stock under employee stock purchase plan	148	2	—	—	5,044	—	—	5,046
Vesting of restricted stock units	782	8	—	—	(8)	—	—	—
Shares withheld for employee taxes	(62)	—	—	—	(3,090)	—	—	(3,090)
Issuance of common stock upon exercise of stock options	120	1	—	—	1,402	—	—	1,403
Other comprehensive loss	—	—	—	—	—	(2,195)	—	(2,195)
Net income	—	—	—	—	—	—	10,453	10,453
Balance, June 30, 2024	62,702	\$ 628	570	\$ (4,765)	\$ 951,620	\$ (851)	\$ (999,552)	\$ (52,920)

	Common stock		Treasury stock		Additional paid-in-capital	Accumulated other comprehensive loss	Accumulated deficit	Total stockholders' deficit
	Shares	Amount	Shares	Amount				
Balance, December 31, 2022	59,720	\$ 597	487	\$ (4,764)	\$ 746,249	\$ (1,411)	\$ (860,745)	\$ (120,074)
Stock-based compensation expense	—	—	—	—	60,794	—	—	60,794
Issuance of common stock under employee stock purchase plan	178	2	—	—	6,172	—	—	6,174
Vesting of restricted stock units	801	7	—	—	(7)	—	—	—
Shares withheld for employee taxes	(53)	—	—	—	(2,591)	—	—	(2,591)
Issuance of common stock upon exercise of stock options	187	2	—	—	2,680	—	—	2,682
Issuance of common stock in relation to an acquisition	107	1	—	—	(1)	—	—	—
Repurchase of common stock in relation to acquisition	—	—	83	(1)	1	—	—	—
Reclassification of 2023 capped calls from equity to derivative asset	—	—	—	—	33,029	—	—	33,029
Other comprehensive gain	—	—	—	—	—	1,661	—	1,661
Net loss	—	—	—	—	—	—	(92,697)	(92,697)
Balance, June 30, 2023	60,940	\$ 609	570	\$ (4,765)	\$ 846,326	\$ 250	\$ (953,442)	\$ (111,022)

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

RAPID7, INC.
Condensed Consolidated Statements of Cash Flows (Unaudited)
(in thousands)

	Six Months Ended June 30,	
	2024	2023
Cash flows from operating activities:		
Net income (loss)	\$ 10,453	\$ (92,697)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,219	22,879
Amortization of debt issuance costs	2,108	2,020
Stock-based compensation expense	52,302	61,068
Impairment of long-lived assets	—	27,231
Change in fair value of derivative assets	—	12,660
Deferred income taxes	1,840	—
Other	(1,352)	4,423
Changes in assets and liabilities:		
Accounts receivable	19,990	15,110
Deferred contract acquisition and fulfillment costs	(1,964)	(5,963)
Prepaid expenses and other assets	430	1,400
Accounts payable	(3,021)	(1,282)
Accrued expenses	(18,391)	(11,968)
Deferred revenue	(23,346)	1,783
Other liabilities	2,660	483
Net cash provided by operating activities	63,928	37,147
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	—	(34,841)
Purchases of property and equipment	(900)	(3,704)
Capitalization of internal-use software	(6,289)	(9,081)
Purchases of investments	(157,967)	(80,257)
Sales and maturities of investments	130,001	65,700
Other investing activities	360	—
Net cash used in investing activities	(34,795)	(62,183)
Cash flows from financing activities:		
Payments related to business acquisitions	—	(2,250)
Taxes paid related to net share settlement of equity awards	(3,089)	(2,591)
Proceeds from employee stock purchase plan	5,046	6,174
Proceeds from stock option exercises	1,404	2,682
Net cash provided by financing activities	3,361	4,015
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,076)	(337)
Net increase (decrease) in cash, cash equivalents and restricted cash	30,418	(21,358)
Cash, cash equivalents and restricted cash, beginning of period	214,130	207,804
Cash, cash equivalents and restricted cash, end of period	\$ 244,548	\$ 186,446
Supplemental cash flow information:		
Cash paid for interest on convertible senior notes	\$ 3,215	\$ 3,337
Cash paid for income taxes, net of refunds	\$ 5,505	\$ 1,221
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 236,975	\$ 185,929
Restricted cash included in other assets and prepaid expenses and other current assets	7,573	517
Total cash, cash equivalents and restricted cash	\$ 244,548	\$ 186,446

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

RAPID7, INC.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Description of Business, Basis of Presentation and Consolidation and Significant Accounting Policies

Description of Business

Rapid7, Inc. and subsidiaries (“we,” “us” or “our”) are advancing security with visibility, analytics, and automation delivered through our platform solutions. Our solutions simplify the complex, allowing security teams to work more effectively with IT and development to reduce vulnerabilities, monitor for malicious behavior, investigate and shut down attacks, and automate routine tasks.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared by us in accordance with accounting principles generally accepted in the United States of America (“GAAP”), as well as pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”), regarding interim financial reporting. Accordingly, certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the SEC on February 26, 2024.

The consolidated financial statements include our results of operations and those of our wholly-owned subsidiaries and reflect all adjustments (consisting solely of normal, recurring adjustments) which are, in the opinion of management, necessary for a fair statement of results for the interim periods presented. All intercompany transactions and balances have been eliminated in consolidation. The results of operations for the three and six months ended June 30, 2024 are not necessarily indicative of the results to be expected for any future period or the entire fiscal year.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The management estimates include, but are not limited to the determination of standalone selling prices in revenue transactions with multiple performance obligations, the estimated period of benefit for deferred contract acquisition costs, the useful lives and recoverability of long-lived assets, the valuation for credit losses, the valuation of stock-based compensation, the fair value of assets acquired and liabilities assumed in business combinations, the incremental borrowing rate for operating leases and the valuation for deferred tax assets. We base our estimates on historical experience and on various other assumptions that we believe are reasonable. Actual results could differ from those estimates.

Significant Accounting Policies

Our significant accounting policies are described in Note 2, *Summary of Significant Accounting Policies*, to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2023.

Restricted Cash

As of June 30, 2024, we had \$7.6 million of restricted cash recorded on our condensed consolidated balance sheet in prepaid expenses and other current assets and other assets in letters of credit outstanding as collateral for certain office space leases.

Recent Accounting Pronouncements

We have not identified any recently issued accounting pronouncements that would have a material impact to our consolidated financial statements.

Note 2. Revenue from Contracts with Customers

We generate revenue primarily from: (1) product subscriptions from the sale of cloud-based subscriptions, managed services, term software licenses, content subscriptions and maintenance and support associated with our software licenses and (2) professional services from the sale of our deployment and training services related to our solutions, incident response services, penetration testing and security advisory services.

Product Subscriptions

Product subscriptions consists primarily of revenue from our cloud-based subscription, managed services offerings, term software licenses, content subscriptions and maintenance and support associated with our software licenses.

- We generate cloud-based subscription revenue primarily from sales of subscriptions to access our cloud platform, together with related support services to our customers. These arrangements do not provide the customer with the right to take possession of our software operating on our cloud platform at any time. Instead, customers are granted continuous access to our cloud platform over the contractual period. Revenue is recognized over time on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our cloud-based subscription contracts generally have annual or multi-year contractual terms which are billed in advance of the annual subscription period and are non-cancellable.
- Managed services offerings consist of fees generated when we operate our software and provide our capabilities on behalf of our customers. Revenue is recognized on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Our managed services offerings generally have annual or multi-year contractual terms which are billed in advance of the annual subscription period and are non-cancellable.
- For our term software licenses where the utility to the customer is dependent on the continued delivery of content subscriptions, we recognize the license revenue over the contractual term of the content subscription.
- Content subscriptions and our maintenance and support services are sold with our term software licenses. Revenue related to our content subscriptions associated with our software licenses is recognized ratably over the contractual period.

Professional Services

All of our professional services are considered distinct performance obligations when sold stand alone or with other products. The majority of our professional services contracts have terms of one year or less. For the majority of these contracts, revenue is recognized over time based upon the proportion of work performed to date.

Contract Balances

Contract liabilities consist of deferred revenue and include payments received in advance of performance under the contract. Such amounts are recognized as revenue over the contractual period consistent with the above methodology. For the three months ended June 30, 2024 and 2023, we recognized revenue of \$179.0 million and \$164.9 million, respectively, and for the six months ended June 30, 2024 and 2023, we recognized \$ 310.8 million and \$288.3 million, respectively, that was included in the corresponding contract liability balance at the beginning of the periods presented. Deferred revenue that will be realized during the succeeding 12-month period is recorded as current, and the remaining deferred revenue is recorded as non-current.

We receive payments from customers based upon contractual billing schedules. Accounts receivable are recorded when the right to consideration becomes unconditional. Unbilled receivables include amounts related to our contractual right to consideration for both completed and partially completed performance obligations that have not been invoiced. If the right to consideration is based on satisfaction of another performance obligation in the contract other than the passage of time, we record a contract asset. As of June 30, 2024 and December 31, 2023, unbilled receivables of \$2.4 million and \$1.1 million, respectively, are included in prepaid expenses and other current assets in our consolidated balance sheet. As of June 30, 2024 and December 31, 2023, we had no contract assets recorded on our condensed consolidated balance sheet.

Transaction Price Allocated to the Remaining Performance Obligations

The following table includes estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied as of June 30, 2024. The estimated revenues do not include unexercised contract renewals.

	Next Twelve Months		Thereafter	
	(in thousands)			
Product subscriptions	\$	560,247	\$	272,911
Professional services		16,155		6,999
Total	\$	576,402	\$	279,910

Note 3. Business Combinations

Minerva Labs Ltd.

On March 14, 2023, we acquired Minerva Labs Ltd. ("Minerva"), a leading provider of anti-evasion and ransomware prevention technology, for a purchase price with an aggregate fair value of \$34.6 million. The purchase consideration consisted of \$35 million paid in cash at closing and a \$(0.4) million receivable for purchase price adjustments.

The assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition date. The excess of the purchase price over the assets acquired and liabilities assumed was recorded as goodwill. The fair value of net assets acquired, goodwill and intangible assets were \$13.9 million, \$20.7 million and \$12.8 million, respectively. The goodwill was allocated to our one reporting unit. The acquired goodwill and intangible assets were not deductible for tax purposes.

In the first quarter of 2024, we sold acquired intellectual property through a non-cash intercompany transaction, which for the three and six months ended June 30, 2024 resulted in \$4.6 million of current tax expense and \$1.8 million of deferred tax expense in Israel.

Note 4. Investments

Our investments, which are all classified as available-for-sale, consisted of the following:

		As of June 30, 2024			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)			
Description:					
U.S government agencies		\$ 257,475	\$ 3	\$ (373)	\$ 257,105
Total		<u>\$ 257,475</u>	<u>\$ 3</u>	<u>\$ (373)</u>	<u>\$ 257,105</u>
		As of December 31, 2023			
		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)			
Description:					
U.S government agencies		\$ 222,820	\$ 467	\$ (65)	\$ 223,222
Agency bonds		<u>2,500</u>	<u>—</u>	<u>(7)</u>	<u>2,493</u>
Total		<u>\$ 225,320</u>	<u>\$ 467</u>	<u>\$ (72)</u>	<u>\$ 225,715</u>

As of June 30, 2024, our available-for-sale investments had maturities ranging from 1 to 15 months. As of December 31, 2023, our available-for-sale investments had maturities ranging from 1 to 18 months.

For all of our investments for which the amortized cost basis was greater than the fair value at June 30, 2024 and December 31, 2023, we have concluded that there is no plan to sell the security nor is it more likely than not that we would be required to sell the security before its anticipated maturity. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating and the time to maturity.

Note 5. Fair Value Measurements

We measure certain financial assets and liabilities 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:** Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- **Level 2:** Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

- **Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability.

We consider an active market to be one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis, and consider an inactive market to be one in which there are infrequent or few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers.

The following table presents our financial assets and liabilities measured and recorded at fair value on a recurring basis using the above input categories:

As of June 30, 2024				
	Level 1	Level 2	Level 3	Total
(in thousands)				
Description:				
Assets:				
U.S. government agencies	\$ 257,105	\$ —	\$ —	\$ 257,105
Foreign currency forward contracts designated as cash flow hedges (prepaid expenses and other current assets and other assets)	—	1,662	—	1,662
Total assets	\$ 257,105	\$ 1,662	\$ —	\$ 258,767
Liabilities:				
Foreign currency forward contracts designated as cash flow hedges (other current liabilities)	—	419	—	419
Total liabilities	\$ —	\$ 419	\$ —	\$ 419
As of December 31, 2023				
	Level 1	Level 2	Level 3	Total
(in thousands)				
Description:				
Assets:				
U.S. government agencies	\$ 223,222	\$ —	\$ —	\$ 223,222
Agency bonds	—	2,493	—	2,493
Foreign currency forward contracts designated as cash flow hedges (prepaid expenses and other current assets and other assets)	—	1,322	—	1,322
Total assets	\$ 223,222	\$ 3,815	\$ —	\$ 227,037
Liabilities:				
Foreign currency forward contracts designated as cash flow hedges (other current liabilities)	—	55	—	55
Total liabilities	\$ —	\$ 55	\$ —	\$ 55

Cash and cash equivalents are excluded from the table above as carrying amounts reported in our condensed consolidated balance sheet equal or approximate fair value. As of June 30, 2024, the fair value of our 2.25%, 0.25% and 1.25% convertible senior notes due 2025, 2027 and 2029, as further described in Note 10, *Debt*, was \$45.1 million, \$536.2 million and \$282.9 million, respectively, based upon quoted market prices. We consider the fair value of the Notes (as defined in Note 10, *Debt*) to be a Level 2 measurement due to limited trading activity of the Notes.

Note 6. Property and Equipment

Property and equipment are recorded at cost and consist of the following:

		June 30, 2024	December 31, 2023
		(in thousands)	
Computer equipment and software	\$	27,355	26,442
Leasehold improvements		10,823	10,850
Other equipment and fixtures		56,151	56,151
Accumulated depreciation		94,328	93,443
Property and equipment, net	\$	(59,444)	(53,801)
		34,884	39,642

Depreciation expense was \$2.8 million and \$3.7 million for the three months ended June 30, 2024 and 2023, respectively, and \$ 5.7 million and \$7.6 million for the six months ended June 30, 2024 and 2023, respectively.

Note 7. Goodwill and Intangibles

Goodwill was \$536.4 million as of June 30, 2024 and December 31, 2023.

The following table presents details of our intangible assets which include acquired identifiable intangible assets and capitalized internal-use software costs:

	Weighted-Average Estimated Useful Life (years)	As of June 30, 2024			As of December 31, 2023		
		Gross Carrying	Accumulated		Gross Carrying	Accumulated	
		Amount	Amortization	Net Book Value	Amount	Amortization	Net Book Value
(in thousands)							
Intangible assets subject to amortization:							
Patented technology	\$ 5.4	135,355	(85,360)	49,995	135,355	(77,031)	58,324
Customer relationships	4.5	12,000	(9,059)	2,941	12,000	(7,755)	4,245
Trademarks	3.1	2,619	(2,469)	150	2,619	(2,379)	240
Acquired intangible assets		149,974	(96,887)	53,087	149,974	(87,164)	62,810
Internal-use software	3.0	61,380	(30,448)	30,933	55,371	(23,635)	31,736
Intangible assets	\$	211,354	(127,335)	84,019	205,345	(110,799)	94,546

Amortization expense was \$8.1 million and \$8.1 million for the three months ended June 30, 2024 and 2023, respectively, and \$ 16.5 million and \$15.3 million for the six months ended June 30, 2024 and 2023, respectively.

Estimated future amortization expense of the acquired identifiable intangible assets and completed capitalized internal-use software costs as of June 30, 2024 was as follows (in thousands):

For the remaining six months)	\$	19,373
		28,630
		18,799
		7,163
		1,600
And thereafter		3,531
Total	\$	79,096

The table above excludes the impact of \$4.9 million of capitalized internal-use software costs for projects that have not been completed as of June 30, 2024, and therefore, all the costs associated with these projects have not been incurred.

Note 8. Deferred Contract Acquisitions and Fulfillment Costs

The following table summarizes the activity of the deferred contract acquisition and fulfillment costs for the six months ended June 30, 2024 and 2023:

		Six Months Ended June 30,	
		2024	2023
		(in thousands)	
Beginning balance	\$	121,609	103,075
Amortization of contract acquisition and fulfillment costs		27,466	25,480
Amortization of deferred contract acquisition and fulfillment costs		(25,502)	(19,517)
Ending balance	\$	123,573	109,038

Note 9. Derivative and Hedging Activities

To mitigate our exposure to foreign currency fluctuations resulting from certain expenses denominated in certain foreign currencies, we enter into forward contracts that are designated as cash flow hedging instruments. These forward contracts have contractual maturities of eighteen months or less, and as of June 30, 2024 and December 31, 2023, outstanding forward contracts had a total notional value of \$42.7 million and \$44.9 million, respectively. The notional value represents the gross amount of foreign currency that will be bought or sold upon maturity of the forward contract. During the three and six months ended June 30, 2024, all cash flow hedges were considered effective. Refer to Note 5, *Fair Value Measurements*, for the fair values of our outstanding derivative instruments.

Note 10. Debt

Convertible Senior Notes

In May 2020, we issued \$230.0 million aggregate principal amount of convertible senior notes due May 1, 2025 (the "2025 Notes"), in March 2021, we issued \$600.0 million aggregate principal amount of convertible senior notes due March 15, 2027 (the "2027 Notes"), and in September 2023, we issued \$300.0 million aggregate principal amount of convertible senior notes due March 15, 2029 (the "2029 Notes") (collectively, the "Notes"). In September 2023, we used \$201.0 million of the proceeds from the issuance of the 2029 Notes to repurchase and retire \$184.0 million aggregate principal amount of the 2025 Notes and paid accrued and unpaid interest thereon. Further details of the Notes are as follows:

Issuance	Maturity Date	Interest Rate	First Interest Payment Date	Effective Interest		Initial Conversion	Initial	Number of Shares (in millions)
				Rate	Semi-Annual Interest Payment Dates	Rate per \$1,000 Principal	Conversion Price	
2025 Notes	May 1, 2025	2.25%	November 1, 2020	2.88%	May 1 and November 1	16.3875	\$ 61.02	0.8
2027 Notes	March 15, 2027	0.25%	September 15, 2021	0.67%	March 15 and September 15	9.6734	\$ 103.38	5.8
2029 Notes	March 15, 2029	1.25%	March 15, 2024	1.69%	March 15 and September 15	15.4213	\$ 64.85	4.6

The 2025 Notes, the 2027 Notes and the 2029 Notes are senior unsecured obligations, do not contain any financial covenants and are governed by indentures between the Company, as issuer, and U.S. Trust Company, Bank National Association, as trustee (the "Indentures"). The total net proceeds from the 2025 Notes, the 2027 Notes and the 2029 Notes offerings, after deducting initial purchase discounts and debt issuance costs, were \$222.8 million, \$585.0 million and \$292.0 million, respectively.

For additional details on the terms of our Notes, see Note 11, *Debt*, to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2023.

As of June 30, 2024, the 2025 Notes, the 2027 Notes and the 2029 Notes were not convertible at the option of the holders.

The holders may convert the 2025 Notes, the 2027 Notes and the 2029 Notes at any time on or after November 1, 2024, December 15, 2026 and December 15, 2028, respectively, until the close of business on the second scheduled trading day immediately preceding the maturity date, regardless of the circumstances set forth above. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election, in the manner and subject to the terms and conditions provided in the Indentures.

If we undergo a fundamental change (as set forth in the Indentures) at any time prior to the maturity date, holders of the Notes will have the right, at their option, to require us to repurchase for cash all or any portion of their Notes at a repurchase price

equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, following certain corporate events that occur prior to the maturity date or following our issuance of a notice of redemption, in each case as described in the Indentures, we will increase the conversion rate for a holder of the Notes who elects to convert its Notes in connection with such a corporate event or during the related redemption period in certain circumstances.

Accounting for the Notes

In accounting for the issuance of the Notes, the principal less debt issuance costs are recorded as debt on our condensed consolidated balance sheet. The debt issuance costs are amortized to interest expense using the effective interest method over the contractual term of the Notes.

The net carrying amount of the Notes as of June 30, 2024 and December 31, 2023 was as follows (in thousands):

	2025 Notes			2027 Notes			2029 Notes		
	Principal	Unamortized debt issuance costs	Total	Principal	Unamortized debt issuance costs	Total	Principal	Unamortized debt issuance costs	Total
Balance at December 31, 2023	\$ 45,992	\$ (404)	\$ 45,588	\$ 600,000	\$ (8,077)	\$ 591,923	\$ 300,000	\$ (7,515)	\$ 292,485
Amortization of debt issuance costs	—	148	148	—	1,244	1,244	—	621	621
Balance at June 30, 2024	\$ 45,992	\$ (256)	\$ 45,736	\$ 600,000	\$ (6,833)	\$ 593,167	\$ 300,000	\$ (6,894)	\$ 293,106

Interest expense related to the Notes was as follows (in thousands):

	Three Months Ended June 30,							
	2024				2023			
	2025 Notes	2027 Notes	2029 Notes	Total	2025 Notes	2027 Notes	Total	
Contractual interest expense	\$ 259	\$ 375	\$ 937	\$ 1,571	\$ 1,294	\$ 375	\$ 1,669	
Amortization of debt issuance costs	73	624	311	1,008	361	619	980	
Total interest expense	\$ 332	\$ 999	\$ 1,248	\$ 2,579	\$ 1,655	\$ 994	\$ 2,649	

	Six Months Ended June 30,							
	2024				2023			
	2025 Notes	2027 Notes	2029 Notes	Total	2025 Notes	2027 Notes	Total	
Contractual interest expense	\$ 518	\$ 750	\$ 1,874	\$ 3,142	\$ 2,588	\$ 750	\$ 3,338	
Amortization of debt issuance costs	148	1,244	621	2,013	701	1,224	1,925	
Total interest expense	\$ 666	\$ 1,994	\$ 2,495	\$ 5,155	\$ 3,289	\$ 1,974	\$ 5,263	

Capped Calls

In connection with the offering of the 2025 Notes, the 2027 Notes and the 2029 Notes, we entered into privately negotiated capped call transactions with certain counterparties (the “2025 Capped Calls”, “2027 Capped Calls” and “2029 Capped Calls”) (collectively, the “Capped Calls”).

The Capped Calls are expected to reduce potential dilution to our common stock upon conversion of a given series of notes and/or offset any cash payments that we are required to make in excess of the principal amount of converted notes of such series, as the case may be, with such reduction and/or offset subject to a cap. The Capped Calls are subject to adjustment upon the occurrence of certain specified extraordinary events affecting us, including merger events, tender offers and announcement events. In addition, the Capped Calls are subject to certain specified additional disruption events that may give rise to a termination of the Capped Calls, including nationalization, insolvency or delisting, changes in law, failures to deliver, insolvency filings and hedging disruptions.

The following table sets forth other key terms and premiums paid for the Capped Calls related to each series of Notes:

	Capped Calls Entered into in Connection with the Issuance of the 2025 Notes	Capped Calls Entered into in Connection with the Issuance of the 2027 Notes	Capped Calls Entered into in Connection with the Issuance of the 2029 Notes
Initial strike price, subject to certain adjustments	\$ 61.02	\$ 103.38	\$ 64.85
Cap price, subject to certain adjustments	\$ 93.88	\$ 159.04	\$ 97.88
Total premium paid (in thousands)	\$ 27,255	\$ 76,020	\$ 36,570
Expiration dates	March 4, 2025 - April 29, 2025	January 1, 2027 - March 11, 2027	February 13, 2029 - March 13, 2029

For accounting purposes, the 2025 Capped Calls, the 2027 Capped Calls and the 2029 Capped Calls are separate transactions, and not part of the terms of the 2025 Notes, the 2027 Notes and the 2029 Notes. The 2025 Capped Calls, 2027 Capped Calls and 2029 Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives.

Credit Agreement

In April 2020, we entered into a Credit and Security Agreement (the Credit Agreement), with KeyBank National Association (as amended, in December 2021) that provides for a \$100.0 million revolving credit facility, with a letter of credit sublimit of \$ 15.0 million and an accordion feature under which we can increase the credit facility to up to \$150.0 million. We incurred fees of \$0.4 million in connection with entering into the Credit Agreement. The fees are recorded in other current assets on the condensed consolidated balance sheet and are amortized on a straight-line basis over the contractual term of the arrangement. The commitment fee of 0.2% per annum on the unused portion of the credit facility is expensed as incurred and included within interest expense on the condensed consolidated statement of operations. The Credit Agreement contains certain financial covenants including a requirement that we maintain specified minimum recurring revenue and liquidity amounts.

The borrowings under the Credit Agreement bear interest, at our option, at a rate equal to either (i) term SOFR plus a credit spread adjustment of 0.10% per annum plus a margin of 2.50% per annum or (ii) the alternate base rate (subject to a floor), plus an applicable margin equal to 0% per annum.

As of June 30, 2024, we did not have any outstanding borrowings under the Credit Agreement.

Note 11. Stock-Based Compensation

(a) General

Stock-based compensation expense for restricted stock units ("RSUs"), performance-based restricted stock units ("PSUs"), stock options and purchase rights issued under our employee stock purchase plan was classified in the accompanying condensed consolidated statements of operations as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
Stock-based compensation expense:				
Cost of revenue	3,126	2,984	5,706	5,821
Research and development	8,597	11,634	16,163	22,139
Sales and marketing	7,512	8,138	14,359	15,981
General and administrative	8,174	8,939	16,074	17,127
Total stock-based compensation expense	\$ 27,409	\$ 35,695	\$ 52,302	\$ 61,068

We recognize compensation cost of all awards on a straight-line basis over the applicable vesting period, which is generally three to four years.

Our Compensation Committee adopted and approved the performance goals, targets and payout formulas for our 2024 and 2023 bonus plans, including permitting our executive officers and certain other employees the opportunity to receive payment of their earned bonuses in the form of common stock (in lieu of cash). During each of the three months ended June 30, 2024 and 2023, we recognized stock-based compensation expense related to such bonuses in the amount of \$0.4 million, and during the six months ended June 30, 2024 and 2023, we recognized stock-based compensation expense in the amount of \$0.5 million and \$1.1 million, respectively, based on the probable expected performance against the pre-established corporate financial objectives as of June 30, 2024 and 2023. For employees,

including executive officers, who elect to receive their bonuses in the form of common stock (in lieu of cash), the payouts are expected to be made in the form of fully vested stock awards in the first quarter of the following year pursuant to our 2015 Equity Incentive Plan, as amended. The number of shares underlying such awards is determined by dividing the dollar value of the actual bonus award payment by the closing price per share of our common stock on the date of grant.

(b) Restricted Stock, Restricted Stock Units and Performance-Based Restricted Stock Units

RSUs and PSUs activity during the six months ended June 30, 2024 was as follows:

	Shares	Weighted-Average Grant Date Fair Value
Unvested balance as of December 31, 2023	2,714,426	\$ 63.02
Granted	2,101,535	\$ 53.97
Vested	(781,389)	\$ 60.68
Forfeited	(389,590)	\$ 61.04
Unvested balance as of June 30, 2024	3,644,982	\$ 58.42

As of June 30, 2024, the unrecognized compensation expense related to our unvested RSUs and PSUs was \$188.9 million. This unrecognized compensation expense will be recognized over an estimated weighted-average amortization period of 2.2 years.

In January 2024, our Compensation Committee awarded 279,570 PSUs that required the achievement of net annualized recurring revenue ("Net ARR") and Adjusted EBITDA targets for the 2024 full-year to earn any payout. Net ARR is defined as the change in the annual value of all recurring revenue related to contracts in place at year end. In addition, the portion of the PSUs that are earned would be capped at a maximum of 200% of the target level payout and if certain net ARR or Adjusted EBITDA goals were not met, no PSUs will be earned. The PSUs have a performance period of one year and the earned PSUs will vest in three equal installments following each of the first, second and third anniversary of the vesting commencement date, subject to the participant's continuous service as of each such date. In the three and six months ended June 30, 2024, we recorded \$0.9 million and \$1.8 million, respectively, of stock-based compensation expense related to these PSUs based on estimated achievement of the performance criteria.

(c) Stock Options

Stock option activity during the six months ended June 30, 2024 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2023	716,270	\$ 12.26	1.97	\$ 32,115
Granted	—	—		
Exercised	(120,322)	\$ 11.66		\$ 4,667
Forfeited/cancelled	(450)	\$ 7.73		
Outstanding as of June 30, 2024	595,498	\$ 12.39	1.69	\$ 18,367
Vested and exercisable as of June 30, 2024	595,498	\$ 12.39	1.69	\$ 22,146

(d) Employee Stock Purchase Plan

Under the Rapid7, Inc. 2015 Employee Stock Purchase Plan ("ESPP"), employees may set aside up to 15% of their gross earnings, on an after-tax basis, to purchase our common stock at a discounted price, which is calculated at 85% of the lesser of: (i) the market value of our common stock at the beginning of each offering period and (ii) the market value of our common stock on the applicable purchase date.

On March 15, 2024, we issued shares of common stock to employees, with a purchase price of either \$ 33.78 or \$39.78 per share, for aggregate proceeds of \$5.0 million.

Note 12. Net Income (Loss) per Share

The following table summarizes the computation of basic and diluted net income (loss) per share of our common stock for the three months June 30, 2024 and 2023:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
(in thousands, except share and per share data)				
Numerator:				
Net income (loss)	\$ 8,195	\$ (66,782)	\$ 10,453	\$ (92,697)
Denominator:				
Weighted-average common shares outstanding, basic	62,496,289	60,470,396	62,201,182	60,180,954
Weighted-average common shares outstanding, diluted	74,250,360	60,470,396	74,135,121	60,180,954
Net income (loss) per share, basic	\$ 0.13	\$ (1.10)	\$ 0.17	\$ (1.54)
Net income (loss) per share, diluted	\$ 0.11	\$ (1.10)	\$ 0.14	\$ (1.54)

We intend to settle any conversion of our 2025 Notes, 2027 Notes and 2029 Notes in cash, shares, or a combination thereof. The dilutive impact of the Notes for our calculation of diluted net income (loss) per share is considered using the if-converted method. For the three and six months ended June 30, 2024 and 2023, the shares underlying the Notes were not considered in the calculation of diluted net income (loss) per share as the effect would have been anti-dilutive.

In connection with the issuance of the 2025 Notes, the 2027 Notes and the 2029 Notes, we entered into the 2025 Capped Calls, 2027 Capped Calls and 2029 Capped Calls, which were not included for the purpose of calculating the number of diluted shares outstanding, as their effect would have been anti-dilutive.

As of June 30, 2024 and 2023, the 2025 Notes, the 2027 Notes and the 2029 Notes were not convertible at the option of the holder. We had not received any conversion notices through the issuance date of our unaudited condensed consolidated financial statements. For disclosure purposes, we have calculated the potentially dilutive effect of the conversion spread, which is included in the table below. The following potentially dilutive securities outstanding have been excluded from the computation of diluted weighted-average shares outstanding for the respective periods below because they would have been anti-dilutive:

	Three and Six Months Ended June 30,	
	2024	2023
Options to purchase common stock	595,498	744,262
Unvested restricted stock units	3,644,982	3,838,671
Common stock issued in conjunction to acquisitions	36,923	115,041
Shares to be issued under ESPP	85,855	120,586
Convertible senior notes	11,183,611	9,572,955
Total	15,546,869	14,391,515

Note 13. Commitments and Contingencies

(a) Warranty

We provide limited product warranties. Historically, any payments made under these provisions have been immaterial.

(b) Litigation and Claims

From time to time, we may be a party to litigation or subject to claims incident to the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business. Regardless of the

outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

(c) Indemnification Obligations

We agree to standard indemnification provisions in the ordinary course of business. Pursuant to these provisions, we agree to indemnify, hold harmless and reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally our customers, in connection with any United States patent, copyright or other intellectual property infringement claim by any third party arising from the use of our products or services in accordance with the agreement or arising from our gross negligence, willful misconduct or violation of the law (provided that there is not gross or willful misconduct on the part of the other party) with respect to our products or services. The term of these indemnification provisions is generally perpetual from the time of execution of the agreement. We carry insurance that covers certain third-party claims relating to our services and limits our exposure. We have never incurred costs to defend lawsuits or settle claims related to these indemnification provisions.

As permitted under Delaware law, we have entered into indemnification agreements with our officers and directors, indemnifying them for certain events or occurrences while they serve as officers or directors of the company.

(d) Income Taxes

From time to time, we may receive income tax assessments from taxing authorities asserting additional tax liabilities owed by the Company. During the quarter ended June 30, 2024, we received an initial assessment from the Israel Tax Authority ("ITA") of approximately 324 million Israeli New Shekels (approximately \$87 million, based upon current exchange rates between the Israeli New Shekel and the US Dollar) related to fiscal year 2021. Based on our interpretation of the regulations and available case law, we believe that the tax positions we have taken on our filed tax return in Israel are sustainable and we intend to defend our position through all available means. As such, we have not recorded any impact of the ITA assessment in our condensed consolidated financial statements as of, and for the three and six months ended June 30, 2024. We are continuing to monitor developments related to this matter and its impact on our existing income tax reserves for all open years. If we are unsuccessful in sustaining our tax position in this matter, our financial condition and results of operations would be adversely affected.

Note 14. Segment Information and Information about Geographic Areas

We operate in one segment. Our chief operating decision maker is our Chief Executive Officer, who makes operating decisions, assesses performance and allocates resources on a consolidated basis.

Net revenues by geographic area presented based upon the location of the customer are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
North America	\$ 159,322	\$ 149,683	\$ 316,662	\$ 293,564
Rest of world	48,669	40,739	96,430	80,032
Total	<u>\$ 207,991</u>	<u>\$ 190,422</u>	<u>\$ 413,092</u>	<u>\$ 373,596</u>

Property and equipment, net by geographic area was as follows:

	As of June 30, 2024	As of December 31, 2023
	(in thousands)	
North America	\$ 24,220	\$ 27,609
Rest of world	10,664	12,033
Total	<u>\$ 34,884</u>	<u>\$ 39,642</u>

Note 15. Restructuring

On August 7, 2023, our board of directors approved a restructuring plan that was designed to improve operational efficiencies, reduce operating costs and better align the Company's workforce with current business needs, top strategic priorities and key growth opportunities (collectively, the "Restructuring Plan"). The Restructuring Plan included a reduction of the Company's workforce by approximately 16%.

During the first quarter of 2024, the execution of the Restructuring Plan was completed and we recorded \$(0.2) million of restructuring charges within general and administrative expense in the condensed consolidated statements of operations.

The following table presents the activity of the restructuring liability for the six months ended June 30, 2024:

	Restructuring Liability	
	(in thousands)	
Balance at December 31, 2023	\$	3,764
Charges		(190)
Payments		(3,574)
Balance at June 30, 2024	\$	—

Note 16. Subsequent Event

On July 3, 2024, we acquired Noetic Cyber, Inc, ("Noetic") a provider of cyber asset attack surface management, for consideration of approximately \$39.2 million, subject to customary working capital adjustments as set forth in the merger agreement, including an aggregate value of \$ 2.3 million of our common stock to be issued to two key employees of Noetic in three installments over a 36-month period following the closing date of the transaction, subject to continued employment requirements (the "Closing Consideration"). In addition, subject to the terms of the merger agreement, we may also be required to pay additional contingent consideration of up to \$20.0 million based on the achievement of certain performance targets (the "Earnout Consideration"), measured annually upon the first, second and third anniversaries of the closing date of the transaction (the "Earnout Period"). If the full \$20.0 million is realized, approximately \$6.9 million of the Earnout Consideration will be issued in the form of shares of our common stock subject to continued employment requirements over the Earnout Period, and the remainder will be paid in cash.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with (1) our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and (2) the audited consolidated financial statements and the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2023 included in our Annual Report on Form 10-K, filed with the SEC on February 26, 2024. Forward-looking statements in this review are qualified by the cautionary statement included under the next sub-heading, "Special Note Regarding Forward-Looking Statements".

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q, including the sections entitled "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Statements that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are often identified by the use of words such as, but not limited to, "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "seek," "should," "target," "will," "would" and similar expressions or variations intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following:

- our ability to continue to add new customers, maintain existing customers and sell new products and professional services to new and existing customers;
- uncertain impacts that changes in overall level of software spending and ongoing volatility in the global economy as well as effects of inflation and increased interest rates may have on our business, strategy, operating results, financial condition and cash flows;
- the effects of increased competition as well as innovations by new and existing competitors in our market;
- our ability to adapt to technological change and effectively enhance, innovate and scale our solutions;
- our ability to effectively manage or sustain our growth and to attain and sustain profitability;
- our ability to diversify our sources of revenue;
- potential acquisitions and integration of complementary business and technologies;
- our expected use of proceeds from future issuances of equity or convertible debt securities;
- our ability to maintain, or strengthen awareness of, our brand;
- perceived or actual security, integrity, reliability, quality or compatibility problems with our solutions, including related to security breaches in our customers; systems, unscheduled downtime or outages;
- statements regarding future revenue, hiring plans, expenses, capital expenditures, capital requirements and stock performance;
- our ability to meet publicly announced guidance or other expectations about our business, key metrics and future operating results;
- our ability to maintain an adequate annualized recurring revenue growth;
- our ability to attract and retain qualified employees and key personnel and further expand our overall headcount;
- our ability to grow, both domestically and internationally;
- our ability to stay abreast of new or modified laws and regulations that currently apply or become applicable to our business both in the United States and internationally;
- our ability to maintain, protect and enhance our intellectual property;
- costs associated with defending intellectual property infringement and other claims; and
- the future trading prices of our common stock and the impact of securities analysts' reports on these prices.

These statements represent the beliefs and assumptions of our management based on information currently available to us. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” included under Part II, Item 1A. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances that occur after the date of this report.

As used in this report, the terms “Rapid7,” the “company,” “we,” “us,” and “our” mean Rapid7, Inc. and its subsidiaries unless the context indicates otherwise.

Overview

Rapid7 is a global cybersecurity software and services provider on a mission to offer customers greater clarity and control of their attack surface through our comprehensive and consolidated security offerings. For more than twenty years, Rapid7 has partnered with customers across the globe representing a diverse range of industries and sizes to improve the efficacy and productivity of their security operations (“SecOps”). In today’s rapidly evolving IT environment, customers are encountering escalating challenges due to the proliferation of cyberattacks leveraging artificial intelligence (“AI”), targeted automation, and a widening spectrum of attackers and techniques. To fortify their security posture, organizations will require greater visibility, advanced capabilities leveraging increased expertise, and integrated data to effectively anticipate, identify, and respond to exposure-led threats.

Through our security operations platform, anchored on our cloud security, security information and event management (“SIEM”), advanced detection and response, and vulnerability management offerings, we believe that Rapid7 is poised to expand the capabilities of today’s SecOps teams. Rapid7 extends and expands the expertise of the Security Operations Center (“SOC”) across information security, cloud operations, development, and IT teams, enabling them to better understand the attacker and leverage that information to take control of their fragmented attack surface. Enriched by years of managed services expertise, our integrated security operations platform enables SecOps teams to move away from a reactive approach, reduce their attack surface, and enhance response efficiency with a deep contextual understanding of their environment.

In the past few years, we have observed the industry undergoing a customer-driven shift to consolidated security platforms. As part of this transition, customers are moving away from cloud security as a specialized function towards cloud security as an integrated capability for SecOps teams. We view this as a demand driver for integrated SecOps, and believe that we have an opportunity to be a leader in delivering integrated risk and threat management across on-premise, cloud, and external attack surfaces. As we have shifted our strategic focus to SecOps consolidation, we are focused on continuing to drive innovation across our core products and capabilities to accelerate customer value and provide a frictionless and integrated cloud security experience.

As the threat landscape continues to grow in complexity, customers are demonstrating demand for integrated expertise to support them in effectively managing their security technologies. The convergence of these key trends – security consolidation, integrated cloud security, and expertise driven outcomes – are the foundation of what we view as the new extended SOC. Our focus is to be the leading provider of integrated security solutions for the extended SOC by providing risk and threat management within the context of overall security.

We market and sell our products and professional services to organizations of all sizes globally, including mid-market businesses, enterprises, non-profits, educational institutions and government agencies. Our customers span a wide variety of industries such as technology, energy, financial services, healthcare and life sciences, manufacturing, media and entertainment, retail, education, real estate, transportation, government and professional services. As of June 30, 2024, we had over 11,000 customers in 147 countries, including 46% of the Fortune 100. Our revenue was not concentrated with any individual customer and no customer represented more than 1% of our revenue for three and six months ended June 30, 2024 or 2023.

Recent Developments

On July 3, 2024, we acquired Noetic Cyber, Inc. ("Noetic") a provider of cyber asset attack surface management, for consideration of approximately \$39.2 million subject to customary working capital adjustments as set forth in the merger agreement, including an aggregate value of \$2.3 million of our common stock to be issued to two key employees of Noetic in three installments over a 36-month period following the closing date of the transaction, subject to continued employment requirements (the "Closing Consideration"). In addition, subject to the terms of the merger agreement, we may also be required to pay additional contingent consideration of up to \$20.0 million based on the achievement of certain performance targets (the "Earnout Consideration"), measured annually upon the first, second and third anniversaries of the closing date of the transaction (the "Earnout Period"). If the full \$20.0 million is realized, approximately \$6.9 million of the Earnout Consideration will be issued in the form of shares of our common stock subject to continued employment requirements over the Earnout Period, and the remainder will be paid in cash.

Our Business Model

We offer our products through a variety of delivery models to meet the needs of our diverse customer base, including:

- Cloud-based subscriptions, which provide our software capabilities to our customers through cloud access and on a subscription basis. Our InsightIDR, InsightCloudSec, InsightVM, InsightAppSec, InsightConnect and Threat Command products are offered as cloud-based subscriptions, with an option for a one or multi-year term.
- Managed services, through which we operate our products and provide our capabilities on behalf of our customers. Our Managed Vulnerability Management, Managed Detection and Response, and Managed Application Security products are offered on a managed service basis, pursuant to one or multi-year agreements.
- Licensed on-premise software consists of term licenses. When licensed on-premise software is purchased, maintenance and support and content subscriptions, as applicable, are bundled with the license for the term period. Our Nexpose and Metasploit products are offered through term software licenses with an option for one or multi-year terms. Our maintenance and support provides our customers with telephone and web-based support and ongoing bug fixes and repairs during the term of the maintenance and support agreement, and our customers who purchase our Nexpose and Metasploit products also purchase content subscriptions, which provide them with real-time access to the latest vulnerabilities and exploits.

Additionally, we offer our products through our consolidation offerings, which unify our products and services to our customers in a single package. Our Threat Complete and Cloud Risk Complete packages are offered as cloud based subscriptions, with an option for a one or multi-year term. Our Managed Threat Complete Offering is offered on a managed service basis, generally pursuant to one or multi-year agreements.

For the three and six months ended June 30, 2024 and 2023, recurring revenue, defined as revenue from term software licenses, content subscriptions, managed services, cloud-based subscriptions and maintenance and support, was 96%, and 95%, respectively, of total revenue.

Key Metrics

We monitor the following key metrics to help us measure and evaluate the effectiveness of our operations and as a means to evaluate period-to-period comparisons. We believe that both management and investors benefit from referring to these key metrics as supplemental information in assessing our performance and when planning, forecasting, and analyzing future periods. These key metrics also facilitate management's internal comparisons to our historical performance as well as comparisons to certain competitors' operating results. We believe these key metrics are useful to investors both because they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and also because they are used by institutional investors and the analyst community to help evaluate the health of our business:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(dollars in thousands)			
Total revenue	\$ 207,991	\$ 190,422	\$ 413,092	\$ 373,596
Year-over-year growth	9.2 %	13.7 %	10.6 %	15.0 %
Non-GAAP income from operations	\$ 39,276	\$ 12,957	\$ 79,561	\$ 23,950
Non-GAAP operating margin	18.9 %	6.8 %	19.3 %	6.4 %
Free cash flow	\$ 29,205	\$ 25,581	\$ 56,739	\$ 24,362

	As of June 30,	
	2024	2023
	(dollars in thousands)	
Annualized recurring revenue ("ARR")	\$ 815,630	\$ 750,850
Year-over-year growth	8.6 %	14.1 %
Number of customers	11,484	11,287
Year-over-year growth	1.7 %	6.2 %
ARR per customer	71.0	\$ 66.5
Year-over-year growth	6.8 %	7.4 %

Total Revenue and Growth. We are focused on driving continued revenue growth through increased sales of our products and professional services to new and existing customers. We monitor total revenue and believe it is useful to investors as a measure of the overall success of our business.

Non-GAAP Income from Operations and Non-GAAP Operating Margin . We monitor non-GAAP income from operations and non-GAAP operating margin, non-GAAP financial measures, to analyze our financial results. We believe non-GAAP income from operations and non-GAAP operating margin are useful to investors, as supplements to U.S. GAAP measures, in evaluating our ongoing operational performance and enhancing an overall understanding of our past financial performance and allowing for greater transparency with respect to metrics used by our management in its financial and operational decision-making. See Non-GAAP Financial Results below for further information on non-GAAP income from operations and a reconciliation of non-GAAP income from operations to the comparable GAAP financial measure.

Free Cash Flow. Free cash flow is a non-GAAP measure that we define as cash provided by operating activities less purchases of property and equipment and capitalization of internal-use software costs. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business after necessary capital expenditures. See Non-GAAP Financial Results below for a reconciliation of non-GAAP free cash flow to the comparable GAAP financial measure.

Annualized Recurring Revenue and Growth. Annualized Recurring Revenue ("ARR") is defined as the annual value of all recurring revenue related to contracts in place at the end of the quarter. ARR should be viewed independently of revenue and deferred revenue, as ARR is an operating metric and is not intended to be combined with or replace these items. ARR is not a forecast of future revenue, which can be impacted by contract start and end dates and renewal rates, and does not include revenue reported as professional services revenue in our consolidated statement of operations. We use ARR and believe it is useful to investors as a measure of the overall success of our business.

Number of Customers. We believe that the size of our customer base is an indicator of our global market penetration and that our net customer additions are an indicator of the growth of our business. We define a customer as any entity that has an active Rapid7 recurring revenue contract as of the specified measurement date, excluding only InsightOps and Logentries customers with a contract value less than \$2,400 per year.

ARR per Customer. ARR per customer is defined as ARR divided by the number of customers at the end of the period.

Non-GAAP Financial Results

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide investors with certain non-GAAP financial measures, including non-GAAP gross profit, non-GAAP income from operations, non-GAAP operating margin, non-GAAP net income, non-GAAP net income per share, adjusted EBITDA and free cash flow. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We use these non-GAAP financial measures for financial and operational decision-making purposes and as a means to evaluate period-to-period comparisons, and use certain non-GAAP financial measures as performance measures under our executive bonus plan. We believe that these non-GAAP financial measures provide useful information about our operating results, enhance the overall understanding of past financial performance and future prospects and allow for greater transparency with respect to metrics used by our management in its financial and operational decision-making. While our non-GAAP financial measures are an important tool for financial and operational decision-making and for evaluating our own operating results over different periods of time, you should review the reconciliation of our non-GAAP financial measures to the comparable GAAP financial measures included below, and not rely on any single financial measure to evaluate our business.

We define non-GAAP gross profit, non-GAAP income from operations, non-GAAP operating margin, non-GAAP net income and non-GAAP net income per share as the respective GAAP balances excluding the effect of stock-based compensation expense, amortization of acquired intangible assets, amortization of debt issuance costs and certain other items such as acquisition-related expenses, impairment of long-lived assets, change in the fair value of derivative assets, restructuring expense and discrete tax items. Non-GAAP net income per basic and diluted share is calculated as non-GAAP net income divided by the weighted average shares used to compute net income per share, with the number of weighted average shares decreased, when applicable, to reflect the anti-dilutive impact of the capped call transactions entered into in connection with our convertible senior notes.

We believe these non-GAAP financial measures are useful to investors in assessing our operating performance due to the following factors:

- *Stock-based compensation expense.* We exclude stock-based compensation expense because of varying available valuation methodologies, subjective assumptions and the variety of equity instruments that can impact our non-cash expense. We believe that providing non-GAAP financial measures that exclude stock-based compensation expense allows for more meaningful comparisons between our operating results from period to period.
- *Amortization of acquired intangible assets.* We believe that excluding the impact of amortization of acquired intangible assets allows for more meaningful comparisons between operating results from period to period as the intangible assets are valued at the time of acquisition and are amortized over several years after the acquisition.
- *Acquisition-related expenses.* We exclude acquisition-related expenses that are unrelated to the current operations and neither are comparable to the prior period nor predictive of future results.
- *Amortization of debt issuance costs.* The expense for the amortization of debt issuance costs related to our convertible senior notes and revolving credit facility is a non-cash item and we believe the exclusion of this interest expense provides a more useful comparison of our operational performance in different periods.
- *Change in fair value of derivative assets.* The change in fair value of derivative assets related to our capped calls settlement is a non-cash item and we believe the exclusion of this other income (expense) provides a more useful comparison of our operational performance in different periods.
- *Impairment of long-lived assets.* Impairment of long-lived assets consists of impairment charges allocated to the carrying amount of certain operating right-of-use assets and the associated leasehold improvements when the carrying amounts exceed their respective fair values and we believe the exclusion of the impairment charges provides a more useful comparison of our operational performance in different periods.
- *Restructuring expense.* We exclude non-ordinary course restructuring expenses related to the restructuring plan we announced in August 2023, which was concluded in the three months ended March 31, 2024 (the "Restructuring Plan") because we do not believe these charges are indicative of our core operating performance and we believe the exclusion of the restructuring expense provides a more useful comparison of our performance in different periods. For further information see Note 15, *Restructuring*, in the Notes to our Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

- *Discrete tax items.* We exclude certain discrete tax items such as income tax expenses or benefits that are not related to ongoing business operations in the current year and adjustments to uncertain tax position reserves as these charges are not indicative of our ongoing operating results, and they are not considered when we are forecasting our future results.
- *Anti-dilutive impact of capped call transaction.* Our capped calls transactions are intended to offset potential dilution from the conversion features in our convertible senior notes. Although we cannot reflect the anti-dilutive impact of the capped call transactions under GAAP, we do reflect the anti-dilutive impact of the capped call transactions in non-GAAP net income (loss) per diluted share, when applicable, to provide investors with useful information in evaluating our financial performance on a per share basis.

We define adjusted EBITDA as net income before (1) interest income, (2) interest expense, (3) other (income) expense, net, (4) provision for income taxes, (5) depreciation expense, (6) amortization of intangible assets, (7) stock-based compensation expense, (8) acquisition-related expenses, (9) impairment of long-lived assets and (10) restructuring expense. We believe that the use of adjusted EBITDA is useful to investors and other users of our financial statements in evaluating our operating performance because it provides them with an additional tool to compare business performance across companies and across periods.

Our non-GAAP financial measures may not provide information that is directly comparable to that provided by other companies in our industry, as other companies in our industry may calculate non-GAAP financial results differently, particularly related to non-recurring, unusual items. In addition, there are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with GAAP, may be different from non-GAAP financial measures used by other companies and exclude expenses that may have a material impact upon our reported financial results. Further, stock-based compensation expense has been and will continue to be for the foreseeable future a significant recurring expense in our business and an important part of the compensation provided to our employees.

The following tables reconcile GAAP gross profit to non-GAAP gross profit for the three and six months ended June 30, 2024, and 2023:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
GAAP total gross profit	\$ 147,143	\$ 132,258	\$ 291,341	\$ 259,433
Stock-based compensation expense	3,126	2,984	5,706	5,821
Amortization of acquired intangible assets	4,012	4,843	8,329	9,218
Non-GAAP total gross profit	<u>\$ 154,281</u>	<u>\$ 140,085</u>	<u>\$ 305,376</u>	<u>\$ 274,472</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
GAAP gross profit – product subscriptions	\$ 145,085	\$ 130,553	\$ 287,348	\$ 256,137
Stock-based compensation expense	2,677	2,269	4,896	4,392
Amortization of acquired intangible assets	4,012	4,843	8,329	9,218
Non-GAAP gross profit – product subscriptions	<u>\$ 151,774</u>	<u>\$ 137,665</u>	<u>\$ 300,573</u>	<u>\$ 269,747</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
GAAP gross profit – professional services	\$ 2,058	\$ 1,705	\$ 3,993	\$ 3,296
Stock-based compensation expense	449	715	810	1,429
Non-GAAP gross profit – professional services	<u>\$ 2,507</u>	<u>\$ 2,420</u>	<u>\$ 4,803</u>	<u>\$ 4,725</u>

The following table reconciles GAAP income (loss) from operations to non-GAAP income from operations for the three and six months ended June 30, 2024, and 2023:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
(in thousands)				
GAAP income (loss) from operations	\$ 6,880	\$ (51,659)	\$ 17,448	\$ (75,624)
Stock-based compensation expense	27,409	31,695	52,302	61,068
Amortization of acquired intangible assets	4,709	5,690	9,723	10,912
Acquisition-related expenses	278	—	278	363
Impairment of long-lived assets	—	27,231	—	27,231
Restructuring expense ⁽¹⁾	—	—	(190)	—
Non-GAAP income from operations	\$ 39,276	\$ 12,957	\$ 79,561	\$ 23,950

⁽¹⁾ For the six months ended June 30, 2024, restructuring expense was recorded within general and administrative expense in our condensed consolidated statement of operations.

The following table reconciles GAAP net income (loss) to non-GAAP net income for the three and six months ended June 30, 2024, and 2023:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
(in thousands, except share and per share data)				
GAAP net income (loss)	\$ 8,195	\$ (66,782)	\$ 10,453	\$ (92,697)
Stock-based compensation expense	27,409	31,695	52,302	61,068
Amortization of acquired intangible assets	4,709	5,690	9,723	10,912
Acquisition-related expenses	278	—	278	363
Amortization of debt issuance costs	1,055	1,026	2,108	2,020
Change in fair value of derivative assets	—	12,660	—	12,660
Impairment of long-lived assets	—	27,231	—	27,231
Restructuring expense	—	—	(190)	—
Discrete tax items	—	—	6,360	—
Non-GAAP net income	\$ 41,646	\$ 11,520	\$ 81,034	\$ 21,557
Interest expense of convertible senior notes (1)	1,571	375	3,142	750
Numerator for non-GAAP earnings per share calculation	\$ 43,217	\$ 11,895	\$ 84,176	\$ 22,307
Weighted average shares used in GAAP earnings per share calculation, basic	62,496,289	60,470,396	62,201,182	60,180,954
Dilutive effect of convertible senior notes (1)	11,183,611	5,803,831	11,183,611	5,803,831
Dilutive effect of employee equity incentive plans (2)	570,460	957,278	750,328	1,292,686
Weighted average shares used in non-GAAP earnings per share calculation, diluted	74,250,360	67,231,505	74,135,121	67,277,471
Non-GAAP net income per share:				
Basic	\$ 0.67	\$ 0.19	\$ 1.30	\$ 0.36
Diluted	\$ 0.58	\$ 0.18	\$ 1.14	\$ 0.33

(1) We use the if-converted method to compute diluted earnings per share with respect to our Notes. There was no add-back of interest expense or additional dilutive shares related to the Notes where the effect was anti-dilutive. On an if-converted basis, for the three and six months ended June 30, 2024, the 2025 Notes, the 2027 Notes and the 2029 Notes were dilutive. On an if-converted basis, for the three and six months ended June 30, 2023, the 2027 Notes were dilutive and the 2025 Notes were anti-dilutive.

(2) We use the treasury method to compute the dilutive effect of employee equity incentive plan awards.

The following table reconciles GAAP net income (loss) to adjusted EBITDA for the three and six months ended June 30, 2024, and 2023:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
GAAP net income (loss)	\$ 8,195	\$ (66,782)	\$ 10,453	\$ (92,697)
Interest income	(5,221)	(1,787)	(9,941)	(3,455)
Interest expense	2,673	2,773	5,343	5,490
Other expense, net	695	13,268	2,130	13,575
Provision for income taxes	538	869	9,463	1,463
Depreciation expense	2,775	3,749	5,683	7,586
Amortization of intangible assets	8,096	8,080	16,536	15,293
Stock-based compensation expense	27,409	31,695	52,302	61,068
Acquisition-related expenses	278		278	363
Impairment of long-lived assets	—	27,231	—	27,231
Restructuring expense	—	—	(190)	—
Adjusted EBITDA	\$ 45,438	\$ 19,096	\$ 92,057	\$ 35,917

The following table reconciles net cash provided by operating activities to free cash flow for the three and six months ended June 30, 2024, and 2023:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
	(in thousands)			
Net cash provided by operating activities	\$ 32,858	\$ 31,305	\$ 63,928	\$ 37,147
Less: Purchases of property and equipment	(280)	(1,419)	(900)	(3,704)
Less: Capitalized internal-use software costs	(3,373)	(4,305)	(6,289)	(9,081)
Free cash flow	\$ 29,205	\$ 25,581	\$ 56,739	\$ 24,362

Components of Results of Operations

Revenue

We generate revenue primarily from selling products and professional services through a variety of delivery models to meet the needs of our diverse customer base.

Product subscriptions

We generate product subscriptions revenue from the sale of (1) cloud-based subscriptions, (2) managed services offerings, which utilize our products and (3) software licenses with related maintenance and support and content subscription, as applicable. Software license revenue consists of revenues from term licenses. When software licenses are purchased, maintenance and support and content subscription, as applicable, is bundled with the license for the term period.

Professional Services

We generate professional service revenue from the sale of deployment and training services related to our products, incident response services and security advisory services.

Cost of Revenue

Our total cost of revenue consists of the costs of product subscriptions and professional services, as noted below. In addition, cost of revenue includes overhead costs for depreciation, facilities, IT, information security, and recruiting. Our IT overhead costs include IT personnel compensation costs and costs associated with our IT infrastructure. All overhead costs are allocated based on relative headcount.

Cost of Product Subscriptions

Cost of product subscriptions consists of personnel and related costs for our content, support, managed service and cloud operations teams, including salaries and other payroll related costs, bonuses, stock-based compensation and allocated overhead costs. Also included in cost of products are software license fees, cloud computing costs and internet connectivity expenses directly related to delivering our products, amortization of contract fulfillment costs, as well as amortization of certain intangible assets including internally developed software.

Cost of Professional Services

Cost of professional services consists of personnel and related costs for our professional services team, including salaries and other payroll related costs, bonuses, stock-based compensation, costs of contracted third-party vendors, travel and entertainment expenses and allocated overhead costs.

We expect our cost of revenue to increase on an absolute dollar basis as we continue to grow our revenue.

Gross Margin

Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the average sales price of our products and services, transaction volume growth, the mix of revenue between software licenses, cloud-based subscriptions, managed services and professional services and changes in cloud computing costs.

We expect our gross margins to fluctuate over time depending on the factors described above.

Operating Expenses

Operating expenses consist of research and development, sales and marketing, general and administrative expenses and restructuring. Operating expenses include overhead costs for depreciation, facilities, IT, information security and recruiting. Our IT overhead costs include IT personnel compensation costs and costs associated with our IT infrastructure. All overhead costs are allocated based on relative headcount.

Research and Development Expense

Research and development expense consists of personnel costs for our research and development team, including salaries and other payroll related costs, bonuses and stock-based compensation. Additional expenses include third-party infrastructure costs, travel and entertainment, consulting and professional fees for third-party development resources as well as allocated overhead costs.

We expect research and development expense to decrease as a percentage of total revenue in the near term.

Sales and Marketing Expense

Sales and marketing expense consists of personnel costs for our sales and marketing team, including salaries and other payroll related costs, commissions, including amortization of deferred commissions, bonuses and stock-based compensation. Additional expenses include marketing activities and promotional events, travel and entertainment, training costs, amortization of certain intangible assets and allocated overhead costs.

We expect sales and marketing expense to decrease as a percentage of total revenue in the near term.

General and Administrative Expense

General and administrative expense consists of personnel costs for our executive, legal, human resources, and finance and accounting departments, including salaries and other payroll related costs, bonuses and stock-based compensation. Additional expenses include travel and entertainment, professional fees, litigation-related expenses, insurance, acquisition-related expenses, amortization of certain intangible assets and allocated overhead costs.

We expect general and administrative expense to decrease as a percentage of total revenue in the near term.

Interest Income

Interest income consists primarily of interest income on our cash and cash equivalents and our short and long-term investments.

Interest Expense

Interest expense consists primarily of contractual interest expense, amortization of debt issuance costs related to our convertible senior notes and revolving credit facility and induced conversion expense. We expect interest expense in the near term to represent contractual interest expense and amortization of debt issuance costs related to our convertible senior notes and revolving credit facility.

Other Income (Expense), Net

Other income (expense), net consists primarily of the change in fair value of derivative assets and unrealized and realized gains and losses related to changes in foreign currency exchange rates.

Provision for Income Taxes

Provision for income taxes consists of domestic and foreign taxes on income and withholding taxes. We maintain a substantially full valuation allowance for domestic and certain foreign deferred tax assets, including net operating loss carryforwards and tax credits. Based on our history of losses, we expect to maintain this substantially full valuation allowance for the foreseeable future as it is more likely than not that some or all of those deferred tax assets may not be realized.

Results of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
(in thousands)				
Consolidated Statement of Operations Data:				
Revenue:				
Product subscriptions	\$ 200,067	\$ 181,701	\$ 396,985	\$ 355,473
Professional services	7,924	8,721	16,107	18,123
Total revenue	207,991	190,422	413,092	373,596
Cost of revenue: ⁽¹⁾				
Product subscriptions	54,982	51,148	109,637	99,336
Professional services	5,866	7,016	12,114	14,827
Total cost of revenue	60,848	58,164	121,751	114,163
Operating expenses: ⁽¹⁾				
Research and development	40,056	50,762	81,046	97,108
Sales and marketing	77,795	83,036	150,600	163,623
General and administrative	22,412	22,888	42,247	47,095
Impairment of long-lived assets	—	27,231	—	27,231
Total operating expenses	140,263	183,917	273,893	335,057
Income (loss) from operations	6,880	(51,659)	17,448	(75,624)
Interest income	5,221	1,787	9,941	3,455
Interest expense	(2,673)	(2,773)	(5,343)	(5,490)
Other expense, net	(695)	(13,268)	(2,130)	(13,575)
Income (loss) before income taxes	8,733	(65,913)	19,916	(91,234)
Provision for income taxes	538	869	9,463	1,463
Net income (loss)	\$ 8,195	\$ (66,782)	\$ 10,453	\$ (92,697)

(1) Cost of revenue and operating expenses include stock-based compensation expense and depreciation and amortization expense as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
(in thousands)				
Stock-based compensation expense:				
Cost of revenue	\$ 3,126	\$ 2,984	\$ 5,706	\$ 5,821
Research and development	8,597	11,634	16,163	22,139
Sales and marketing	7,512	8,138	14,359	15,981
General and administrative	8,174	8,939	16,074	17,127
Total stock-based compensation expense	\$ 27,409	\$ 31,695	\$ 52,302	\$ 61,068
	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
(in thousands)				
Depreciation and amortization expense:				
Cost of revenue	\$ 7,926	\$ 7,947	\$ 16,226	\$ 15,033
Research and development	839	1,106	1,698	2,275
Sales and marketing	1,669	2,053	3,402	4,120
General and administrative	437	722	893	1,451
Total depreciation and amortization expense	\$ 10,871	\$ 11,828	\$ 22,219	\$ 22,879

The following table sets forth our condensed consolidated statements of operations data expressed as a percentage of revenue:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Condensed Consolidated Statement of Operations Data:				
Revenue:				
Product subscriptions	96.2 %	95.4 %	96.1 %	95.1 %
Professional services	3.8	4.6	3.9	4.9
Total revenue	100.0	100.0	100.0	100.0
Cost of revenue:				
Product subscriptions	26.4	26.8	26.5	26.6
Professional services	2.8	3.7	2.9	4.0
Total cost of revenue	29.2	30.5	29.4	30.6
Operating expenses:				
Research and development	19.3	26.7	19.6	26.0
Sales and marketing	37.3	43.6	36.5	43.8
General and administrative	10.8	12.0	10.2	12.6
Impairment of long-lived assets	—	14.3	—	7.3
Total operating expenses	67.4	96.6	66.3	89.7
Income (loss) from operations	3.3	(27.1)	4.3	(20.2)
Interest income	2.5	0.9	2.4	0.9
Interest expense	(1.3)	(1.5)	(1.3)	(1.5)
Other expense, net	(0.3)	(7.0)	(0.5)	(3.6)
Income (loss) before income taxes	4.2	(34.6)	4.9	(24.4)
Provision for income taxes	0.3	0.5	2.3	0.4
Net income (loss)	3.9 %	(35.1)%	2.6 %	(24.8)%

Comparison of the Three Months Ended June 30, 2024 and 2023

Revenue

	Three Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Revenue:				
Product subscriptions	\$ 200,067	\$ 181,701	\$ 18,366	10.1 %
Professional services	7,924	8,721	(797)	(9.1)%
Total revenue	\$ 207,991	\$ 190,422	\$ 17,569	9.2 %

Total revenue increased by \$17.6 million in the three months ended June 30, 2024 compared to the same period in 2023. The \$17.6 million increase in revenue consisted of a \$1.6 million increase in revenue from new customers and a \$16.0 million increase in revenue from existing customers. The \$16.0 million increase in revenue from existing customers was due to an increase in revenue from renewals, upsells and cross-sells as a result of the continued growth of our existing customer base. Revenue from new customers represents the revenue recognized from the customer's initial purchase.

The increase in total revenue in the three months ended June 30, 2024 compared to the same period in 2023 was comprised of \$9.6 million generated from sales in North America and \$8.0 million generated from sales from the rest of the world.

Cost of Revenue

	Three Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Cost of revenue:				
Product subscriptions	\$ 54,982	\$ 51,148	\$ 3,834	7.5 %
Professional services	5,866	7,016	(1,150)	(16.4)%
Total cost of revenue	<u>\$ 60,848</u>	<u>\$ 58,164</u>	<u>\$ 2,684</u>	4.6 %
Gross margin %:				
Product subscriptions	72.5 %	71.9 %		
Professional services	26.0 %	19.6 %		
Total gross margin %	<u>70.7 %</u>	<u>69.4 %</u>		

Total cost of revenue increased by \$2.7 million in the three months ended June 30, 2024 compared to the same period in 2023, primarily due to a \$5.0 million increase in cloud computing costs related to growing cloud-based subscription and managed services revenue and a \$1.0 million increase in amortization expense for capitalized internally-developed software. These increases were partially offset by a \$3.0 million decrease in personnel costs, inclusive of a \$0.1 million decrease in stock-based compensation expense, resulting from a decrease in headcount due to our Restructuring Plan, and a \$1.0 million decrease in other expenses.

Total gross margin percentage increased for the three months ended June 30, 2024 compared to the same period in 2023. The increase in product subscriptions gross margin for the three months ended June 30, 2024 was driven by our ability to scale as our revenue continues to grow. The increase in professional services gross margin for the three months ended June 30, 2024 was primarily due to a decrease in personnel costs.

Operating Expenses

Research and Development Expense

	Three Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Research and development	\$ 40,056	\$ 50,762	\$ (10,706)	(21.1) %
% of revenue	19.3 %	26.7 %		

Research and development expense decreased by \$10.7 million in the three months ended June 30, 2024 compared to the same period in 2023, primarily due to a \$7.7 million decrease in personnel costs, inclusive of a \$3.0 million decrease in stock-based compensation expense, resulting from a decrease in headcount primarily due to our Restructuring Plan, and a \$3.0 million decrease due to a write-off of a capitalized internal-use software project in the prior period.

Sales and Marketing Expense

	Three Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Sales and marketing	\$ 77,795	\$ 83,036	\$ (5,241)	(6.3) %
% of revenue	37.3 %	43.6 %		

Sales and marketing expense decreased by \$5.2 million in the three months ended June 30, 2024 compared to the same period in 2023, primarily due to a \$6.2 million decrease in personnel costs, inclusive of a \$0.6 million decrease in stock-based compensation expense, resulting from a decrease in headcount primarily due to our Restructuring Plan, and a \$0.5 million decrease in marketing and advertising expenses. These decreases were partially offset by a \$1.1 million increase in other expenses.

General and Administrative Expense

	Three Months Ended June 30,				Change			
	2024		2023		\$	%		
	(dollars in thousands)							
General and administrative	\$	22,412	\$	22,888	\$	(476)	(2.1)	%
% of revenue		10.8	%	12.0	%			

General and administrative expense decreased by \$0.5 million in the three months ended June 30, 2024 compared to the same period in 2023, primarily due to a \$0.5 million decrease in stock-based compensation expense.

Impairment of Long-Lived Assets

	Three Months Ended June 30,				Change		
	2024		2023		\$	%	
	(dollars in thousands)						
Impairment of long-lived assets	\$	—	27,231	\$	(27,231)	(100.0)	%
% of revenue		—	%	14.3	%		

Impairment of long-lived assets expense of \$27.2 million in the three months ended June 30, 2023 was recorded after a triggering event related to a change in usage of certain idle office space at our corporate headquarters in Boston, Massachusetts indicated that the carrying value of our right of use and other lease-related assets may not be fully recoverable.

Interest Income

	Three Months Ended June 30,				Change	
	2024		2023		\$	%
	(dollars in thousands)					
Interest income	\$	5,221	\$	1,787	\$ 3,434	192.2 %
% of revenue		2.5 %		0.9 %		

Interest income increased by \$3.4 million in the three months ended June 30, 2024 compared to the same period in 2023 primarily due to an increase in interest rates.

Interest Expense

	Three Months Ended June 30,				Change	
	2024		2023		\$	%
	(dollars in thousands)					
Interest expense	\$	(2,673)	\$	(2,773)	\$ 100	(3.6)%
% of revenue		(1.3)%		(1.5)%		

Interest expense was consistent in the three months ended June 30, 2024 compared to the same period in 2023.

Other Expense, Net

	Three Months Ended June 30,				Change	
	2024		2023		\$	%
	(dollars in thousands)					
Other expense, net	\$	(695)	\$	(13,268)	\$	12,573 (94.8)%
% of revenue		(0.3)%		(0.2)%		

Other expense, net decreased by \$12.6 million in the three months ended June 30, 2024 compared to the same period in 2023 primarily due to a \$12.7 million expense for the change in fair value on derivative assets related to our 2023 capped calls settlement in the prior period as well as increases in realized and unrealized foreign currency gains, primarily related to the euro and British pound sterling.

Provision for Income Taxes

	Three Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Provision for income taxes	\$ 538	\$ 869	\$ (331)	(38.1)%
% of revenue	4.4 %	0.5 %		

Provision for income taxes decreased by \$0.3 million in the three months ended June 30, 2024 compared to the same period in 2023 primarily due to a decrease in taxes associated with our international operations.

Comparison of the Six Months Ended June 30, 2024 and 2023

Revenue

	Six Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Revenue:				
Product subscriptions	\$ 396,985	\$ 355,473	\$ 41,512	11.7 %
Professional services	16,107	18,123	(2,016)	(11.1)%
Total revenue	<u>\$ 413,092</u>	<u>\$ 373,596</u>	<u>\$ 39,496</u>	10.6 %

Total revenue increased by \$39.5 million in the six months ended June 30, 2024 compared to the same period in 2023 and consisted of a \$3.5 million increase in revenue from new customers and a \$36.0 million increase in revenue from existing customers. The \$36.0 million increase in revenue from existing customers was due to an increase in revenue from renewals, upsells and cross-sells as a result of the continued growth of our existing customer base. Revenue from new customers represents the revenue recognized from the customer's initial purchase.

The increase in total revenue in the six months ended June 30, 2024 compared to the same period in 2023 was comprised of \$23.1 million generated from sales in North America and \$16.4 million generated from sales from the rest of the world.

Cost of Revenue

	Six Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Cost of revenue:				
Product subscriptions	\$ 109,637	\$ 99,336	\$ 10,301	10.4 %
Professional services	12,114	14,827	(2,713)	(18.3)%
Total cost of revenue	<u>\$ 121,751</u>	<u>\$ 114,163</u>	<u>\$ 7,588</u>	6.6 %
Gross margin %:				
Products	72.4 %	72.1 %		
Professional services	24.8 %	18.2 %		
Total gross margin %	<u>70.5 %</u>	<u>69.4 %</u>		

Total cost of revenue increased by \$7.6 million in the six months ended June 30, 2024 compared to the same period in 2023, primarily due to a \$11.1 million increase in cloud computing costs related to growing cloud-based subscription and managed services revenue and a \$2.4 million increase in amortization expense for capitalized internally-developed software. These increases were partially offset by a \$6.1 million decrease in personnel costs, inclusive of a \$0.1 million decrease in stock-based compensation expense, resulting from a decrease in headcount primarily due to our Restructuring Plan, and a \$1.2 million decrease in other expenses.

Total gross margin percentage increased in the six months ended June 30, 2024 compared to the same period in 2023. The increase in product subscriptions gross margin in the six months ended June 30, 2024 was driven by our ability to scale as our

revenue continues to grow. The increase in professional services gross margin in the six months ended June 30, 2024 was primarily due to a decrease in personnel costs.

Operating Expenses

Research and Development Expense

	Six Months Ended June 30,				Change	
	2024		2023		\$	%
	(dollars in thousands)					
Research and development	\$	81,046	\$	97,108	\$ (16,062)	(16.5)
% of revenue		19.6	%	26.0		%

Research and development expense decreased by \$16.1 million in the six months ended June 30, 2024 compared to the same period in 2023, primarily due to a \$13.1 million decrease in personnel costs, inclusive of a \$6.0 million decrease in stock-based compensation expense, resulting from a decrease in headcount, primarily due to our Restructuring Plan, and a \$3.0 million decrease due to a write-off of a capitalized internal-use software project in the prior period.

Sales and Marketing Expense

	Six Months Ended June 30,				Change			
	2024		2023		\$	%		
	(dollars in thousands)							
Sales and marketing	\$	150,600	\$	163,623	\$	(13,023)	(8.0)	%
% of revenue		36.5	%	43.8	%			

Sales and marketing expense decreased by \$13.0 million in the six months ended June 30, 2024 compared to the same period in 2023, primarily due to a \$12.4 million decrease in personnel costs, inclusive of a \$1.6 million decrease in stock-based compensation expense, resulting from a decrease in headcount primarily due to our Restructuring Plan, and a \$2.1 million decrease in marketing and advertising expenses. These decreases were partially offset by a \$1.5 million increase in other expenses.

General and Administrative Expense

	Six Months Ended June 30,				Change	
	2024		2023		\$	%
	(dollars in thousands)					
General and administrative	\$	42,247	\$	47,095	\$	(4,848)
% of revenue		10.2	%	12.6		(10.3)
				%		%

General and administrative expense decreased by \$4.8 million in the six months ended June 30, 2024 compared to the same period in 2023, primarily due to a \$3.3 million decrease in personnel costs, inclusive of a \$1.1 million decrease in stock-based compensation expense, resulting from a decrease in headcount primarily due to our Restructuring Plan, and a \$2.4 million decrease in professional fees. These decreases were partially offset by a \$0.9 million increase in other expenses.

Impairment of Long-Lived Assets

	Six Months Ended June 30,				Change	
	2024		2023		\$	%
	(dollars in thousands)					
Impairment of long-lived assets	\$	—	\$	27,231	\$	(27,231) 100.0 %
% of revenue		— %		7.3 %		

Impairment of long-lived assets expense of \$27.2 million in the six months ended June 30, 2023 was recorded after a triggering event related to a change in usage of certain idle office space at our corporate headquarters in Boston, Massachusetts indicated that the carrying value of our right of use and other lease-related assets may not be fully recoverable.

Interest Income

	Six Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Interest income	\$ 9,941	\$ 3,455	\$ 6,486	187.7 %
% of revenue	2.4 %	0.9 %		

Interest income increased by \$6.5 million in the six months ended June 30, 2024 compared to the same period in 2023, primarily due to an increase in interest rates.

Interest Expense

	Six Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Interest expense	\$ (5,343)	\$ (5,490)	\$ 147	(2.7)%
% of revenue	(1.3)%	(1.5)%		

Interest expense was consistent in the six months ended June 30, 2024 compared to the same period in 2023.

Other Expense, Net

	Six Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Other expense, net	\$ (2,130)	\$ (13,575)	\$ 11,445	(84.3)%
% of revenue	(0.5)%	(3.6)%		

Other expense, net decreased by \$11.4 million in the six months ended June 30, 2024 compared to the same period in 2023, primarily due to a \$12.7 million expense for the change in fair value on derivative assets related to our 2023 capped calls settlement in the prior period as well as increases in realized and unrealized foreign currency gains, primarily related to the euro and British pound sterling.

Provision for Income Taxes

	Six Months Ended June 30,		Change	
	2024	2023	\$	%
(dollars in thousands)				
Provision for income taxes	\$ 9,463	\$ 1,463	\$ 8,000	546.8 %
% of revenue	2.3 %	0.4 %		

Provision for income taxes increased by \$8.0 million in the six months ended June 30, 2024 compared to the same period in 2023 primarily due to \$6.4 million of tax expense recorded for an intercompany sale of intellectual property as part of post-acquisition strategy related to the acquisition of Minerva Lab Ltd. and an increase in domestic taxes.

Liquidity and Capital Resources

As of June 30, 2024, we had \$237.0 million in cash and cash equivalents, \$257.1 million in investments that have maturities ranging from one to fifteen months and an accumulated deficit of \$1.0 billion. Since our inception, we have generated significant losses and we may generate losses for the foreseeable future. Our principal sources of liquidity are cash and cash equivalents, investments, cash flow provided by operating activities and our Credit and Security Agreement (the "Credit Agreement"). To date, we have financed our operations primarily through private and public equity financings, issuance of convertible senior notes and through cash generated by operating activities.

We believe that our existing cash and cash equivalents, our investments, our available borrowings under our Credit Agreement and cash generated by operating activities will be sufficient to meet our operating and capital requirements for at least the next 12 months. Our foreseeable cash needs, in addition to our recurring operating expenses, include our expected capital expenditures to support expansion of our infrastructure and workforce, office facilities lease obligations, purchase

commitments, including our cloud infrastructure services (including with Amazon Web Services ("AWS")), potential future acquisitions of technology businesses and any election we make to redeem our convertible senior notes.

Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support research and development efforts, the expansion of sales and marketing activities, particularly internationally, the introduction of new and enhanced products and service offerings, the cost of any future acquisitions of technology or businesses and any election we make to redeem our convertible senior notes. In the event that additional financing is required from outside sources, we may be unable to raise the funds on acceptable terms, if at all. If we are unable to raise additional capital on terms satisfactory to us when we require it, our business, operating results and financial condition could be adversely affected.

Cash Flows

The following table shows a summary of our cash flows for the six months ended June 30, 2024 and 2023:

	Six Months Ended June 30,	
	2024	2023
	(in thousands)	
Cash, cash equivalents and restricted cash at beginning of period	\$ 214,130	\$ 207,804
Net cash provided by operating activities	63,928	37,147
Net cash used in investing activities	(34,795)	(62,183)
Net cash provided by financing activities	3,361	4,015
Effects of exchange rates on cash, cash equivalents and restricted cash	(2,076)	(337)
Cash, cash equivalents and restricted cash at end of period	\$ 244,548	\$ 186,446

Uses of Funds

Our historical uses of cash have primarily consisted of cash used for operating activities such as expansion of our sales and marketing operations, research and development activities and other working capital needs, as well as cash used for business acquisitions and purchases of property and equipment, including leasehold improvements for our facilities.

Operating Activities

Operating activities provided \$63.9 million of cash and cash equivalents in the six months ended June 30, 2024, which reflects continued growth in revenue partially offset by our continued investments in our operations and the timing of working capital adjustments. Cash provided by operating activities reflected our net income of \$10.5 million and a decrease in our net operating assets and liabilities of \$23.6 million, offset by non-cash charges of \$77.1 million related primarily to depreciation and amortization, stock-based compensation expense, deferred income taxes, amortization of debt issuance costs and other non-cash charges. The change in our net operating assets and liabilities was primarily due to a decrease in deferred revenue and the timing of payments of operating expenses, including payout of annual bonuses and year-end commissions and other compensation costs and accounts payable, partially offset by a decrease in accounts receivable due to an increase in cash collections from our customers.

Operating activities provided \$37.1 million of cash and cash equivalents in the six months ended June 30, 2023, which reflects continued growth in revenue partially offset by our continued investments in our operations and the timing of working capital adjustments. Cash provided by operating activities reflected our net loss of \$92.7 million and a decrease in our net operating assets and liabilities of \$0.4 million, offset by non-cash charges of \$130.3 million related primarily to depreciation and amortization, stock-based compensation expense, impairment of long-lived assets, change in fair value of derivative assets, amortization of debt issuance costs and other non-cash charges. The change in our net operating assets and liabilities was primarily due to a \$12.0 million decrease in accrued expenses, primarily as a result of the payout of annual bonuses and year-end commissions, a \$1.3 million decrease in accounts payable and a \$6.0 million increase in deferred contract acquisition and fulfillment costs, which each had a negative impact on operating cash flow. These factors were offset by a \$15.1 million decrease in accounts receivable due to an increase in collections, a \$1.4 million decrease in prepaid expenses, a \$1.8 million

increase in deferred revenue and a \$0.5 million increase in other liabilities, which each had a positive impact on operating cash flow.

Investing Activities

Investing activities used \$34.8 million of cash in the six months ended June 30, 2024, consisting of \$28.0 million in purchases of investments, net of sales/maturities, \$6.3 million for capitalization of internal-use software costs, and \$0.9 million in capital expenditures to purchase computer equipment and leasehold improvements, partially offset by proceeds of \$0.4 million for other investing activities.

Investing activities used \$62.2 million of cash in the six months ended June 30, 2023, consisting of \$34.8 million of cash paid for the acquisition of Minerva, \$9.1 million for capitalization of internal-use software costs, and \$3.7 million in capital expenditures to purchase computer equipment and leasehold improvements, partially offset by \$14.6 million in purchases of investments, net of sales and maturities.

Financing Activities

Financing activities provided \$3.4 million of cash in the six months ended June 30, 2024, which consisted primarily of \$5.0 million in proceeds from the issuance of common stock purchased by employees under the Rapid7, Inc. 2015 Employee Stock Purchase Plan ("ESPP") and \$1.4 million in proceeds from the exercise of stock options, partially offset by \$3.1 million in withholding taxes paid for the net share settlement of equity awards.

Financing activities provided \$4.0 million of cash in the six months ended June 30, 2023, which consisted primarily of \$6.2 million in proceeds from the issuance of common stock purchased by employees under the ESPP and \$2.7 million in proceeds from the exercise of stock options, partially offset by \$2.3 million in payments related to the acquisition of IntSights and \$2.6 million in withholding taxes paid for the net share settlement of equity awards.

Contractual Obligations and Commitments

As of June 30, 2024, there were no additional material changes from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on February 26, 2024 (the "Annual Report").

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We do not engage in off-balance sheet financing arrangements. In addition, we do not engage in trading activities involving non-exchange traded contracts. We therefore believe that we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). The preparation of our condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and disclosures. We base our estimates and assumptions on historical experience and other factors that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates. There have been no material changes in our critical accounting policies from those disclosed in our Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. A majority of our customers enter into contracts that are denominated in U.S. dollars. Our expenses are generally denominated in the currencies of the countries where our operations are located, which is primarily in the United States and to a lesser extent in the United Kingdom, other Euro-zone countries within mainland Europe, Canada, Australia, Israel, Singapore and Japan. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign currency exchange rates. The effect of a hypothetical 10% adverse change in foreign currency exchange rates on monetary assets and liabilities as of June 30, 2024 would not have been material to our financial condition or results of operations. We enter into forward contracts designated as cash flow hedges to manage the foreign currency exchange rate risk associated with certain of our foreign currency denominated expenditures. The effectiveness of our existing hedging transactions and the availability and effectiveness of any hedging transactions we may decide to enter into in the future may be limited, and we may not be able to successfully hedge our exposure, which could adversely affect our financial condition and operating results. For further information, see Note 9, *Derivatives and Hedging Activities*, in the Notes to our Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign currency rates.

Interest Rate Risk

As of June 30, 2024, we had cash and cash equivalents of \$237.0 million consisting of bank deposits and money market funds and investments of \$257.1 million consisting of U.S. government agencies. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

Our cash and cash equivalents and investments are subject to market risk due to changes in interest rates, which may affect our interest income and the fair value of our investments. Due in part to these factors, our future investment income may fluctuate due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our investments as available-for-sale securities, no gains or losses are recognized due to the changes in interest rates unless securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary.

The fair values of our convertible senior notes are subject to interest rate risk, market risk and other factors due to the conversion features of the notes. The fair values of the convertible senior notes may increase or decrease for various reasons, including fluctuations in the market price of our common stock, fluctuations in market interest rates and fluctuations in general economic conditions. The interest and market value changes affect the fair values of the convertible senior notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Based upon the quoted market price as of June 30, 2024, the fair values of our 2025 Notes, 2027 Notes and 2029 Notes were \$45.1 million, \$536.2 million and \$282.9 million, respectively.

As of June 30, 2024, the effect of a hypothetical 10% increase or decrease in interest rates would not have had a material impact on our financial statements.

Inflation Risk

As of June 30, 2024, we do not believe that inflation had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operations of our disclosure controls and procedures as of June 30, 2024. Based on the evaluation of our disclosure controls and procedures as of June 30, 2024, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Inherent Limitations of Internal Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we are a party to litigation or subject to claims incident to the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, we currently believe that the final outcome of these ordinary course matters will not have a material adverse effect on our business, financial condition or results of operations. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors.

Except as follows below, there have been no material changes to the risk factors disclosed in Part 1, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission (the "SEC") on February 26, 2024 (the "Annual Report"). Our operations and financial results are subject to various risks and uncertainties that, if they materialize, could adversely affect our business, financial condition and results of operations. In that event, the trading price of our common stock could decline. In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors described in Part I, Item 1A. "Risk Factors" of our Annual Report. We may disclose additional changes to risk factors or disclose additional factors from time to time in our future filings with the SEC. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business.

We may have exposure to greater than anticipated tax liabilities.

We are subject to U.S. federal, state, local and sales taxes in the United States and foreign income taxes, withholding taxes and transaction taxes in numerous foreign jurisdictions. We generally conduct our international operations through wholly-owned subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships are and will continue to be subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. Significant judgment is required in evaluating our tax positions and our worldwide provision for taxes. During the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain and the relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations by recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, by changes in foreign currency exchange rates, or by changes in the valuation of our deferred tax assets and liabilities. We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes, sales taxes, and value-added taxes against us. If we are unsuccessful in sustaining our tax positions, our financial condition and results of operations would be adversely affected. For example, during the quarter ended June 30, 2024, we received an initial assessment from the Israel Tax Authority of approximately 324 million Israeli New Shekels in relation to the fiscal year 2021 operations of one of our subsidiaries in Israel. If we are unsuccessful in sustaining our tax position in this matter, our financial condition and results of operations would be adversely affected. See Note 13, Commitments and Contingencies, in the notes to the condensed consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q for further information.

Our business could be negatively affected as a result of actions of activist stockholders or others.

We may be subject to actions or proposals from stockholders or others that may not align with our business strategies or the interests of our other stockholders. Responding to such actions can be costly and time-consuming, disrupt our business and operations, and divert the attention of our board of directors, management, and employees from the pursuit of our business strategies. Such activities could interfere with our ability to execute our strategic plan. Activist stockholders or others may create perceived uncertainties as to the future direction of our business or strategy which may be exploited by our competitors and may make it more difficult to attract and retain qualified personnel and potential customers, and may affect our relationships with current customers, vendors, investors, and other third parties. In addition, a proxy contest for the election of directors at our annual meeting would require us to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and our board of directors. The perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**(a) Recent Sales of Unregistered Equity Securities**

None.

(b) Use of Proceeds from Initial Public Offering of Common Stock

None.

(c) Issuer Purchases of Equity Securities

None.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Our proxy statement for the 2024 Annual Meeting of Shareholders, which was filed with the Securities and Exchange Commission on April 19, 2024, contained a typographical error in the section entitled "Questions and Answers About These Proxy Materials and Voting - When are stockholder proposals and director nominations due for next year's annual meeting?" solely related to the dates by which a shareholder must (a) provide notice to us if the shareholder would like to include a shareholder director candidate in the Company's proxy materials for the 2025 Annual Meeting of Shareholders and (b) submit a shareholder proposal for possible inclusion in our proxy materials for the 2025 Annual Meeting of Shareholders. The corrected information is set forth below:

When are stockholder proposals and director nominations due for next year's annual meeting?

To be considered for inclusion in next year's proxy materials, you must submit your proposal, in writing, by December 20, 2024, to our Corporate Secretary c/o Rapid7, Inc., 120 Causeway Street, Boston, Massachusetts, 02114, and you must comply with all applicable requirements of Rule 14a-8 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Pursuant to our bylaws, if you wish to bring a proposal before the stockholders or nominate a director at the 2025 Annual Meeting of Stockholders, but you are not requesting that your proposal or nomination be included in next year's proxy materials, you must notify our Corporate Secretary, in writing, not later than the close of business on March 14, 2025 nor earlier than the close of business on February 13, 2025. However, if our 2025 Annual Meeting of Stockholders is not held between May 14, 2024 and July 12, 2024, to be timely, notice by the stockholder must be received not earlier than the close of business on the 120th day prior to the 2025 Annual Meeting of Stockholders and not later than the close of business on the later of the 90th day prior to the 2025 Annual Meeting of Stockholders or the 10th day following the day on which public announcement of the date of the 2025 Annual Meeting of Stockholders is first made. You are also advised to review our bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

Certain of our executive officers and directors may execute purchases and sales of our securities through Rule 10b5-1 equity trading plans and "non-Rule 10b5-1 equity trading arrangements" (as defined in Item 408(c) of Regulation S-K).

During the three months ended June 30, 2024, the executive officers set forth below terminated or modified a 10b5-1 equity trading plan, or adopted, terminated, or modified any "non-Rule 10b5-1 equity trading arrangement".

Name and Position	Action	Adoption or Transaction	Type of Trading Arrangement	Number of Shares of Common Stock to be	Expiration Date
		Date		Sold	
Reeny Sondhi Director	Adoption	May 30, 2024	Rule 10b5-1*	14,650 **	05/15/2025***

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

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** Represents the maximum number of shares that may be sold pursuant to the Rule 10b5-1 trading arrangement in amounts and prices determined in accordance with a formula set forth in the plan. The actual number of shares sold will be dependent on the satisfaction of certain conditions as set forth in the written plan.

*** The Rule 10b5-1 trading arrangement will terminate on the earlier of the date all the shares under the plan are sold and the expiration date indicated, subject to early termination for specified events set forth in the plan.

During the three months ended June 30, 2024, other than noted above, none of our executive officers or directors terminated or modified a 10b5-1 equity trading plan, or adopted, terminated, or modified any “non-Rule 10b5-1 equity trading arrangement”.

Item 6. Exhibits.

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of Rapid7, Inc., as of June 3, 2020 (incorporated by reference Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-37496), filed on August 10, 2020).
3.2	Amended and Restated Bylaws of Rapid7, Inc., as of June 3, 2020 (incorporated by reference to Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q (File No. 001-37496), filed with the Securities and Exchange Commission on August 10, 2020).
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data file (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

* Filed herewith.

** This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RAPID7, INC.

Date: August 7, 2024	By:	<u>/s/ Corey E. Thomas</u> Name: Corey E. Thomas Title: Chief Executive Officer (Principal Executive Officer)
Date: August 7, 2024	By:	<u>/s/ Tim Adams</u> Name: Tim Adams Title: Chief Financial Officer (Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Corey E. Thomas, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rapid7, 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.

Date: August 7, 2024

/s/ Corey E. Thomas

Name: Corey E. Thomas

Title: Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tim Adams, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rapid7, 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.

Date: August 7, 2024

/s/ Tim Adams

Name: Tim Adams

Title: Chief Financial Officer

(Principal Financial Officer)

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

I, Corey E. Thomas, Chief Executive Officer of Rapid7, Inc., do hereby 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 Quarterly Report on Form 10-Q of Rapid7, Inc. for the quarter ended June 30, 2024 (the "Report"):

- (1) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Rapid7, Inc. for the period presented herein.

Date: August 7, 2024

By: /s/ Corey E. Thomas

Name: Corey E. Thomas

Title: Chief Executive Officer

(Principal Executive Officer)

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

I, Tim Adams, Chief Financial Officer of Rapid7, Inc., do hereby 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 Quarterly Report on Form 10-Q of Rapid7, Inc. for the quarter ended June 30, 2024 (the "Report"):

- (1) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Rapid7, Inc. for the period presented herein.

Date: August 7, 2024

/s/ Tim Adams

Name: Tim Adams

Title: Chief Financial Officer

(Principal Financial Officer)