SPLUNK INC
Form 10-K
March 29, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended: January 31, 2017
OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number: 001-35498

SPLUNK INC.
(Exact name of registrant as specified in its charter)

Delaware	86-1106510
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

270 Brannan Street
San Francisco, California 94107
(Address of principal executive offices)
(Zip Code)

(415) 848-8400
(Registrant's telephone number, including area code)
Securities Registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes x No
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act: Yes No x
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of shares of common stock held by non-affiliates of the registrant was $5,154,380,131, based on the number of shares held by non-affiliates and the last reported sale price of the registrant’s common stock on July 29, 2016 (the last business day of the registrant's most recently completed second fiscal quarter).

The number of shares outstanding of the Registrant’s Common Stock as of March 21, 2017 was 138,246,501 shares.

Documents Incorporated by Reference

Portions of the registrant’s definitive Proxy Statement for the 2017 Annual Stockholders’ Meeting are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the sections entitled “Business,” “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 (the “Exchange Act”). 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 expressions or variations intended to identify forward-looking statements. These forward-looking statements include, but are not limited to, statements concerning the following:

- our future financial and operating results; including trends in and expectations regarding revenues, deferred revenue, billings, gross margins, operating income and the proportion of transactions that will be recognized ratably;
- market opportunity;
- expected benefits to customers and potential customers of our offerings, as well as our user-driven ecosystem;
- investment strategy, business strategy and growth strategy, including the use of acquisitions to expand our business;
- sales and marketing strategy, including our international sales strategy;
- management’s plans, beliefs and objectives for future operations;
- our ability to provide compelling and uninterrupted cloud services to our customers;
- expectations about competition;
- economic and industry trends or trend analysis;
- expectations about seasonality;
- revenue mix;
- use of non-GAAP financial measures;
- operating expenses, including changes in research and development, sales and marketing, and general and administrative expenses;
- sufficiency of cash to meet cash needs for at least the next 12 months;
- exposure to interest rate changes;
- inflation;
- anticipated income tax rates; and
- capital expenditures, cash flows and liquidity.

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 I, 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.

Item 1. Business

Overview

Splunk provides innovative software solutions that enable organizations to gain real-time operational intelligence by harnessing the value of their data. Our offerings enable users to collect, index, search, explore, monitor, correlate and analyze data regardless of format or source. Our offerings address large and diverse data sets commonly referred to as big data and are specifically tailored for machine data. Machine data is produced by nearly every software application and electronic device in an organization and contains a definitive, time-stamped record of various activities, such as transactions, customer and user activities, and security threats. Beyond an organization's traditional information technology (“IT”) and security infrastructure, data from the Industrial Internet, including industrial control systems, sensors, SCADA systems, networks, manufacturing systems, smart meters and IoT which includes consumer -oriented systems, such as electronic wearables, mobile devices, automobiles and medical devices are also continuously generating machine data. Our offerings help organizations gain value from all of these different sources and forms of machine data.

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Our mission is to make machine data accessible, usable and valuable to everyone in an organization. Our customers leverage our offerings for various use cases, including infrastructure and operations management, security and compliance, applications management and business analytics, and to provide insights into data generated by the Internet of Things ("IoT") and industrial data, among many others. Our offerings are intended to help users in various roles, including IT, security and business professionals, quickly analyze their machine data and achieve real-time visibility into and intelligence about their organization's operations. We believe this operational intelligence enables organizations to improve service levels, reduce operational costs, mitigate security risks, demonstrate and maintain compliance, and drive better business decisions. The result is an improved level of operational visibility enabling more informed business decisions that can provide greater efficiency, security and competitive advantage for our customers.

Our flagship product is Splunk Enterprise, a machine data platform, comprised of collection, indexing, search, reporting, analysis, alerting, monitoring and data management capabilities. Splunk Enterprise can collect and index petabytes of machine data daily, irrespective of format or source. Our machine data platform uses our patented data processing architecture that performs dynamic schema creation on the fly, enabling users to run queries on data without having to define or understand the structure of the data prior to collection and indexing. This is in contrast to traditional IT systems that require users to establish the format of their data prior to collection in order to answer a pre-set list of questions. Splunk Enterprise also enables customers to interactively explore, analyze and visualize data stored in data sources such as Hadoop and Amazon S3. Our technology delivers speed, scalability and advanced analytics including machine learning when processing massive amounts of machine data. Our software leverages improvements in the cost and performance of commodity computing and can be deployed in a wide variety of computing environments, from a single laptop to large globally distributed data centers as well as public, private and hybrid cloud environments.

Splunk Cloud delivers the core capabilities of Splunk Enterprise as a scalable, reliable cloud service. Splunk Cloud is available internationally and enables customers to gain Operational Intelligence without the investment of deploying, provisioning and managing software and infrastructure. Splunk Cloud can be used solely as a cloud service or via a hybrid approach that spans cloud and on-premises environments, in which a single Splunk interface can search both on-premises Splunk Enterprise instances as well as Splunk Cloud instances, providing a single-pane-of-glass that enables visibility across the customer's entire IT environment.

Splunk Light provides log search and analysis that is designed, priced and packaged for small IT environments, where a single-server log analytics solution is sufficient, and accordingly the daily indexing volume is limited as compared to Splunk Enterprise. Splunk Light collects, indexes, monitors, reports and alerts on a customer's log data in real time, and can be purchased through our online store or via our channel partners.

Our premium solutions are purpose-built to address key customer needs. Splunk premium solutions are sold separately and include:

- Splunk Enterprise Security - Addresses emerging security threats and security information and event management ("SIEM") use cases through monitoring, alerts and analytics.
- Splunk IT Service Intelligence - Monitors the health and key performance indicators of critical IT and business services.
- Splunk User Behavior Analytics - Detects cyber-attacks and insider threats using data science, machine learning and advanced correlation.

We also complement the capabilities of Splunk Enterprise, Splunk Cloud and our premium solutions with additional content ("apps" and "add-ons"). These apps and add-ons, which are generally available for download from within our offerings, via our Splunkbase website or in our Splunk Cloud environment, provide functionality in the form of pre-built data inputs, workflows, searches, reports, alerts and dashboards that make it easier and faster for our customers to address specific use cases. Splunk, along with a number of third-party developers and customers, have developed hundreds of apps and add-ons for common data sources and valuable use cases in our core and adjacent markets. Many of these apps and add-ons are available as free downloads. Examples of apps that we and our partners have developed include:

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Splunk Analytics for Hadoop (formerly known as HUNK) - Allows customers to rapidly explore, analyze and visualize existing data in Hadoop. Splunk Analytics for Hadoop natively supports Apache Hadoop, Amazon EMR, Cloudera CDH, Hortonworks Data Platform, IBM InfoSphere BigInsights, MapR M-series and Pivotal HD distributions.

- Splunk App for AWS - Used to analyze over 15 AWS services and deliver critical end-to-end visibility across the AWS environment – helping to enable customers to ensure security and compliance, manage IT operations and optimize AWS cost in real-time.

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- Splunk Stream - Used to capture, analyze and correlate network wire data to monitor operations and end-to-end transactions without manual instrumentation.
- DB Connect - Enables customers to get business and enterprise context such as customer, product and HR data from traditional relational databases using real-time integration.
- Palo Alto Networks App for Splunk - Enables Splunk users to gain visibility to Palo Alto Networks firewalls in order to perform incident analysis on correlated application and user activities across all network and security infrastructures from a real-time and historical perspective.

Splunk apps enable us to target new markets and address markets traditionally served by point solutions. Often, customers using apps results in expanded data indexing, usage, licensing and revenues for Splunk Enterprise and Splunk Cloud.

As part of our strategy to offer an open platform, we provide application programming interfaces (“APIs”), software development kits (“SDKs”) in major programming languages, and extensions for popular integrated development environments (“IDEs”) like Eclipse and Microsoft Visual Studio. These enable developers to build software that leverages Splunk Enterprise or Splunk Cloud as well as integrate with other parts of an organizations’ IT infrastructure.

Our online user community websites, Splunkbase and Splunk Answers, provide our customers with an environment to share apps, collaborate on the use of our software and provide community-based support. Additionally, our Splunk Dev portal allows developers to download SDKs, access API documentation and see sample code for building applications using our developer environment and tools. We believe this user-driven ecosystem results in greater use of our offerings and provides cost-effective marketing, increased brand awareness and viral adoption of our offerings.

Our offerings are designed to deliver rapid return-on-investment for our customers. They generally do not require customization, long deployment cycles or extensive professional services commonly associated with traditional enterprise software applications. Prospective users can get started with our free online sandboxes that enable our customers to immediately try and experience Splunk offerings. Users that prefer to deploy the software on-premises can take advantage of our free 60-day trial of Splunk Enterprise, which converts into a limited free perpetual license of up to 500 megabytes of data per day. Paying users can sign up for Splunk Cloud and avoid the need to provision, deploy and manage internal infrastructure. Alternatively, they can simply download and install the software, typically in a matter of hours, to connect to their relevant machine data sources. Customers can also provision a compute instance on AWS via a pre-built Amazon Machine Image, which delivers a pre-configured virtual machine instance with our Splunk Enterprise software. In fiscal 2017, we introduced free development-test licenses for certain commercial customers, allowing users to explore new data and use cases in a non-production environment without incurring additional fees. We also offer support, training and professional services to our customers to assist in the deployment of our software.

As of January 31, 2017, we had over 13,000 customers, including more than 85 of the Fortune 100 companies. Our Splunk Enterprise customers pay license fees generally based on their estimated peak daily indexing capacity needs. From time to time, our customers enter into transactions that are designed to enable broad adoption of our software across their entire organization, referred to as enterprise adoption agreements (“EAAs”). EAAs provide these customers with a flexible licensing model that provides the freedom to use our software beyond their original daily indexing capacity estimates and more predictable costs that can be budgeted over a multi-year period. Our Splunk Cloud customers pay an annual subscription fee based on the combination of the volume of data indexed per day and the amount of data they wish to store. For fiscal 2017, 2016 and 2015, our revenues were $950.0 million, $668.4 million and $450.9 million, respectively, representing year-over-year growth of 42% for fiscal 2017 and 48% for fiscal 2016. Our net losses for fiscal 2017, 2016 and 2015 were $355.2 million, $278.8 million and $217.1 million, respectively.

Our Growth Strategy

Our goal is to make Splunk the standard platform for delivering operational intelligence and real-time business insights from machine data. The key elements of our strategy are to:

Extend our technological capabilities. We intend to continue to invest heavily in product development to deliver additional features and performance enhancements, deployment models and solutions that can address new end markets. In particular, we intend to invest in our suite of cloud services to both deliver new capabilities as well as provide a cloud-first experience to our customers. We will continue to expand into adjacent products, services and technologies that enable organizations to further realize the value of their machine data across cloud and on-premises environments. Our investments may involve organic hiring and associated development, acquisitions and licensing of third party technology.

Continue to expand our direct and indirect sales organization, including our channel relationships, to increase our sales capacity and enable greater market presence. We will continue to increase investments in our sales and marketing organizations to enable the acquisition of new customers as well as expansion within our current customer base. Our investments will be spread across geographies, customer tiers and industries. We will continue to invest in and foster the growth of our channel relationships, both inside and outside the United States, to enable greater leverage in our go-to-market investments. We will also expand go-to-market channels that enable new ways to consume our offerings.

Further penetrate our existing customer base and drive enterprise-wide adoption. We will continue to drive customer satisfaction and renewals by offering community, standard, enterprise and global support to ensure our customers' success with our offerings. We will continue to cultivate incremental sales from our existing customers through increased use of our offerings within organizations as well as consultative services that broaden the customer's awareness of our product and service capabilities. In particular, we will continue to seek to upsell increased indexing capacity to our existing customers for additional deployments and new use cases. We believe our existing customer base serves as a strong source of incremental revenues given the horizontal applicability of our offerings and the growing machine data volumes our customers experience. Our sales teams are responsible for securing new customers, obtaining renewals of existing contracts and increasing adoption of our software by existing customers.

Enhance our value proposition through a focus on solutions which address core and expanded use cases. We will continue to organize our go-to-market and product strategy around our customer use cases. We have invested in market groups in the Security, IT, Business Analytics and IoT areas. This approach includes offering capabilities, either in the form of platform features or premium solutions, which target both our core use cases as well as new use cases, as driven by our corporate strategy and customer demand. We believe premium solutions in particular will enable us to increase our market penetration, expand our addressable market opportunity and make our products a more targeted solution for specific challenges that our customers face across their organizations.

Grow our user communities and partner ecosystem to increase awareness of our brand, target new use cases, drive operational leverage and deliver more targeted, higher value solutions. We believe our user community has the potential to provide significant operating leverage by delivering apps that extend the Splunk platform into new use cases. We will continue to invest in business development initiatives in order to add additional OEM and strategic relationships to enable new sales channels for our offerings as well as extend our product integrations with third-party products. In addition, once these relationships have been established, we expect that OEM vendors and managed service providers will continue to invest in and create customized application functionality based on our platform.

Continue to deliver a rich developer environment to enable rapid development of enterprise applications that leverage machine data and the Splunk platform. We intend to continue our investments in SDKs and APIs that help software developers leverage the Splunk platform. Our SDKs enable developers to build solutions that deeply integrate the analytics functionality of these offerings as well as access data stored in data indexes. Through our investments in SDKs and APIs, we intend to promote and extend the capabilities of our offerings to customers who wish to build sophisticated applications and interfaces that leverage our software and services.

Pricing

We price our offerings primarily on the amount of data indexed, namely the maximum aggregate volume of uncompressed data indexed on a daily basis, expressed in gigabytes, terabytes or petabytes per day. Once a data ingestion license is purchased, there is no limit or additional costs based on other product usage elements nor the customer's preferred deployment size or model. Our Splunk Cloud and Splunk Light Cloud customers generally pay an annual subscription fee based on the combination of the volume of data indexed per day and the amount of data they wish to store.

For organizations that choose to standardize on Splunk software as their enterprise-wide platform for machine data, we offer EAAs, which provide our customers with a flexible licensing model and the freedom to use our software beyond their purchased license capacity. EAAs are designed to benefit organizations of any size, from small and midsize businesses to Fortune 100 companies and provide customers with more predictable costs that can be budgeted over a multi-year period as well as enable expansion to new use cases without penalty or cost.

Some of our offerings address markets where other pricing models may be prevalent. Splunk Analytics for Hadoop, which delivers analytics in the Hadoop market, is priced by the number of TaskTracker Nodes (Compute Nodes in YARN) in the respective Hadoop cluster. The pricing of Splunk User Behavior Analytics, which helps detect cyber-attacks and insider threats using data science, machine learning and advanced correlation, is based on the number of monitored user and system accounts.

Splunk Technology

Key Technologies

We believe our investments in our products and key technologies provide significant competitive differentiation. Our key technologies are architected to support large volumes of machine data at a massive scale with minimal overhead. Our platform is highly flexible and is able to collect and index large amounts of heterogeneous data formats, from physical, virtual and/or cloud environments.

Schema-on-the-fly. Our products collect and index data irrespective of source and format. Rather than requiring that data be input in a pre-defined structure, our schema-on-the-fly technology creates structure as data is being searched, allowing users to ask new and different questions at any time without having to re-architect a schema as would be required in a relational database. Our technology builds a schema at read time, rather than write time, and does not require pre-defined knowledge about the data it is processing. Using our technology, different users can run a variety of queries, regardless of changes in format of the data being input into the system.

Machine data platform. Our products enable users to process machine data no matter the infrastructure topology, from a single machine to a globally distributed, virtualized IT infrastructure. This machine data platform allows customers to address the complexities of handling massive amounts of real-time, dynamic, heterogeneous machine data. Our APIs enable users to forward data from our software to other parts of their IT network, creating a machine data platform across the organization irrespective of whether the data is used by our products for analysis and reporting or as a conduit to other systems.

Search processing language. Our proprietary search processing language is specifically designed for working with machine data. Our search language supports arithmetic operations to refine searches and conduct calculations with the results of a query in real time. Statistical and reporting commands native to our search language let users perform more robust calculations and analytics. Our software can also learn about the structure of the machine data through the searches users conduct, allowing users to utilize the machine data structure and knowledge garnered by previous Splunk searches. Our software includes acceleration technology that delivers high performance for analytical operations across terabytes or petabytes of data, such as identifying rare terms and performing aggregation operations.

Machine Learning. The Splunk Machine Learning Toolkit allows our customers to apply machine learning analytics to better predict and help prevent IT, security and IoT incidents, and can also be used to forecast key business indicators. Machine learning embedded in our software offers customers advanced analytics as an integrated, turnkey part of IT and security use cases.

Splunk Enterprise and Splunk Cloud

Features and Functionality

Our Splunk Enterprise platform contains the following features and functionalities, while Splunk Cloud delivers the core capabilities of Splunk Enterprise as a cloud service.

Universally collect, index, store and archive any machine data, from any source. Splunk Enterprise processes machine data in real time from any source, format or location. This includes streaming data generated by websites, applications, servers, networks, sensors and mobile devices.

Search and investigate. Splunk Enterprise allows users to search real-time and historical machine data simultaneously.

User-friendly interface. Splunk Enterprise uses a customizable interface that enables users to understand and adopt the product. The user interface also provides productivity features, such as type-ahead and contextual help to accelerate adoption and usage.

Knowledge store. Users can store knowledge about events, fields, transactions, patterns, statistics and key-value pairs so others who utilize the Splunk instance can leverage this information.

Monitor and alert. Users can save searches so they can be run automatically to raise real-time alerts that trigger actions such as sending emails, running scripts, or posting to an RSS feed.

Report and analyze. Users can create ad hoc reports on real-time and historical data to analyze business and IT data trends.

Custom dashboards and views. Splunk Enterprise enables users to create custom dashboards that integrate multiple charts and views of real-time and historical data for different users and roles.

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Data models and pivot.   Splunk Enterprise enables users to build data models that describe relationships in the underlying machine data, making it more meaningful and usable. Non-technical users can generate charts, visuals and dashboards using the pivot interface, without the need to master the Splunk Search Processing Language.

Developer platform.   Splunk Enterprise includes a rich developer environment. The Splunk Web Framework enables developers to use the tools and languages they know, such as JavaScript, to build Splunk apps with custom dashboards, a flexible UI and custom data visualizations. SDKs for Java, JavaScript, C#, Python, PHP and Ruby enable rapid integration between Splunk Enterprise to other applications and systems to maximize the value of our customers' data.

Role-based access controls.   Splunk Enterprise incorporates role-based access controls and authentication, integrated with existing enterprise-wide security policies, to help secure the data stored within our indexes as well as control users' activities in our software.

Technology Architecture

For our Splunk platform, the technology architecture contains a number of important components:

Collection.   Our Splunk platform collects machine data from many disparate sources across a distributed environment deployed on-premises, or in public and private clouds. This includes servers, network devices, desktop and laptop computers, mobile devices and various other systems that organizations have deployed to support their operations. Our products act as a recording mechanism, collecting, storing and making available all of the machine data that they index and store. Splunk offers a Universal Forwarder and other data ingestion tools that can be deployed on various data sources to facilitate the reliable collection of machine data.

Indexing.   Our proprietary universal indexing technology enables real-time indexing of any data collected regardless of its source or format and without the use of any specific parsers or data connectors. Our Splunk platform indexes the data and stores the data in a scalable storage format, which can reside on commodity servers and storage devices. In the case of Splunk Cloud, data is stored securely in our cloud service, which we host on Amazon Web Services.

Search.   Our Splunk platform enables users to search massive amounts of machine data that have been indexed and stored. At its most basic level, the search engine at the core of our Splunk platform allows users to type and search for keywords or data fields that are of interest. This foundational capability forms the basis for deriving business insights from our dashboards and customized views. Users can leverage our search language and functionality to filter through indexed data and refine search results to obtain more precise information. Splunk also provides event pattern detection to allow users to detect meaningful patterns in their machine data, regardless of data source or type.

Core functions.   Our Splunk platform's core functionality includes alerts, access control, statistics, correlation and predictive capabilities. With our software's granular, role-based access control, an administrator can manage various aspects of a given user's search including the data to which the user has access, as well as what portions of the data may be visible in results. Search results and reports can be defined according to a particular user's business function and level of access. Different users can see completely different views on the same data, depending on what is important to them.

Archive to Hadoop and Amazon S3.   Splunk Enterprise customers can archive historical data to Hadoop or Amazon S3 for low-cost storage as a standard feature. Customers can gain new insights with distributed search queries that correlate real-time data from Splunk Enterprise with historical data stored in Hadoop or Amazon S3.

SDKs and APIs.   Our SDKs allow third-party software developers to build enterprise applications on top of our software using popular programming languages such as Java, JavaScript, C#, Python, PHP and Ruby. Our APIs allow users to access the machine data stored within the Splunk platform instance as well as access our machine data engine functionality from third-party software.

App Development Environment.   We provide the ability for users and third party developers to create apps with custom dashboards, flexible UI components and custom data visualizations using freely available components and templates, as well as common development languages and frameworks, such as JavaScript and Python.

Splunk Product Deployments

Splunk Enterprise and Splunk Light can be deployed on-premises and in public or private clouds. Splunk Cloud delivers the core capabilities of Splunk Enterprise as a cloud service. Taking Splunk Enterprise and Splunk Cloud together, customers utilizing a hybrid deployment model can have a single centralized view and location-independent use across cloud and on-premises environments.

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For Splunk Enterprise deployments, our software can be deployed in a variety of environments ranging from a single server to globally distributed enterprise IT environments handling petabytes of data per day. Our customers can deploy Splunk Enterprise on-premises, in the cloud, in virtualized server and storage environments or in hybrid IT environments. Our customers can use Splunk forwarders, indexers, and search heads to create a machine data platform that allows for the efficient, secure and real-time collection and indexing of machine data regardless of network, data center or IT infrastructure topology.

This distributed machine data processing architecture provides near-linear scalability, resulting in the ability to index and search across massive data volumes. Our Splunk platform can operate in a single data center or across multiple data centers both inside and outside an organization, and all from a single user interface. This architecture also allows for flexible deployment of hardware, as commodity hardware can be added as needed.

Splunk Light provides log search and analysis for small IT environments and can be purchased as a cloud service or limited to deployment on a single server. It does not contain the enterprise deployment features, such as high availability or clustering found in our Splunk Enterprise product. This simplifies deployment and provides fast time to value for the targeted log search and analysis use case within small IT environments.

Services

While users can easily download, install and deploy Splunk software on their own, certain enterprise customers that have large, highly complex IT environments or deployment requirements may choose to leverage our customer support and professional services organization. Many users leverage the community-based support of Splunk Apps and Add-ons and Splunk Answers before engaging with our customer support or services organizations. Some of our certified partners also provide limited, first level support and professional services before a customer reaches out to our internal Splunk customer support and professional services teams.

Maintenance and Customer Support

Our customers typically purchase one year of software maintenance and support as part of their initial purchase of our products, with an option to renew their maintenance agreements. These maintenance agreements provide customers the right to receive unspecified software updates, maintenance releases and patches, and access to our technical support services during the term of the agreement.

We maintain a customer support organization that offers multiple service levels for our customers based on their needs. Enterprise or Global support customers receive 24x7x365 access to subject matter experts for critical issues, direct telephone support, access to online support and software upgrades. Additionally, Global support provides a designated resource to manage the account and quarterly reviews of the customer’s deployments. Our customer support organization has global capabilities, delivering support with deep expertise in our software, complex IT environments and associated third party infrastructure.

Training Services

We offer training services to our customers and channel partners through our education and training organization. We have also implemented a comprehensive training certification program to ensure an understanding of our offerings.

Professional Services

We provide consulting and implementation services to customers through our professional services team. They are typically utilized by large enterprises looking to deploy our software across their large, disparate and complex IT infrastructure. We generally provide these services at the time of initial installation to help the customer with configuration and implementation. Given our software’s ease-of-use, our professional services engagements are typically short in duration and last from a few days to up to several weeks.

Partner and Developer Ecosystem

We have OEM relationships with a select group of third parties who integrate our software into their product offerings to provide additional reporting, monitoring and analytic capabilities within their own products. With respect to our OEM relationships, we provide a limited use license to expose certain data and analytics functionalities in their products, for which they generally pay us a royalty based on units shipped.

We engage with managed service providers, who offer services based on our software, such as for security, PCI compliance and log management. These services are typically offered on a subscription basis, for which we are paid license fees typically based on daily indexing volume.

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We have also established relationships with several leading technology companies to build Splunk apps that allow users to capture data and gain insights into those parties' respective products. Several technology providers offer apps for free via the Splunkbase website. These apps typically consist of collections of reports, dashboards and data extractions which put our software in context for users of those specific technologies and allow them to easily and quickly understand the performance of their IT systems or correlate this data with other data sources.

We offer a developer license that allows third-party developers to build software using our existing developer framework and we have published information about our APIs to enable developers to build new user interfaces on top of our platform. We are creating additional SDKs based on various programming languages to make our software more extensible and allow developers to build applications and services that extend its functionality.

Splunk Communities

Our online communities provide us with a growing network of active users who promote the usage of our software and provide technical support to each other.

Our online communities include Splunkbase, our apps repository, Splunk Answers, our community collaboration site, and Splunk Dev, where developers can download SDKs, access API documentation and see sample code for building applications using our developer environment and tools. We also maintain active communities on leading social internet platforms, including Facebook, Twitter and LinkedIn.

Splunk Apps and Add-ons. Users and partners contribute and share custom apps and add-ons that run on our software. Generally, these apps provide pre-built functionality that addresses specific use cases. Currently, we have hundreds of apps available for download on the Splunkbase website. We do not receive any revenues from the sale of apps by third-party application providers, and most apps posted to Splunkbase are free. Partner apps listed on Splunkbase that are not free are licensed directly by the third party to the end user.

Splunk Answers. Users ask questions in an online community forum and share best practices about how to build searches, create data visualizations and configure and deploy our software. While our product, support, engineering and professional services teams participate in the Splunk Answers forum, during fiscal 2017, approximately 80% of questions appearing on Splunk Answers were answered by non-Splunk personnel, largely the result of a growing, active user community.

Splunk Dev. In addition to documentation about the Splunk APIs and SDKs, our developer portal contains documentation about best practices for building machine data output into third-party software.

We also promote and support offline meetings for our community, including regional user group meetings and an annual user conference.

Sales and Marketing

Our sales and marketing organizations work together closely to drive market awareness, build a sales pipeline, and cultivate customer relationships to drive revenue growth.

Sales

We sell our offerings through direct field sales, direct inside sales and indirect channel sales. We gather prospects through a broad range of marketing programs and events, and through users who either download our trial software from our website or sign up for our online sandboxes or cloud services. Our sales development and inside sales teams handle lead qualifications and in addition, the latter supports smaller transactions. Larger or more complex transactions are handled by our globally distributed direct field sales teams. Our sales engineers help define customer use cases and pre-sales qualification and evaluation.

We maintain a distributor and reseller network, or channel, which often co-sells with our field sales organization. Our channel assists us by sourcing new prospects through leveraging their deep customer relationships, providing technical support to existing customers, upselling for additional use cases and daily indexing capacities and maintenance renewals. Our Splunk Partner+ Program is a value-based model which allows partners to capture margins based upon the value they are delivering to specific opportunities. Our channel expands our geographic sales reach worldwide, particularly in key international markets such as the United Kingdom, Germany, Japan and China. As of January 31, 2017, we had over 700 channel relationships worldwide. Historically, the majority of EMEA and APAC sales have been fulfilled through channel partners and we expect this trend to continue.

In addition to acquiring new customers, our sales teams are responsible for securing renewals of existing contracts as well as increased adoption of our offerings by existing customers. To accomplish this, our field and inside sales teams work closely with our customers to drive expanded licenses through higher capacity or upgrades and additional use cases within existing customers. Our field sales teams are organized geographically across the Americas, EMEA and APAC. We intend to invest in our sales organization and channel to drive greater market penetration in the Americas, EMEA and APAC. We also have a dedicated sales team focused on government customers, which includes United States federal, state and local government entities. For fiscal 2017, 2016 and 2015, our revenues from our international operations represented 24%, 25% and 24% of total revenues, respectively. For additional information regarding our revenues and property and equipment by geographic location, see Note 9 to our consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K.

Marketing

We focus our marketing efforts on increasing Splunk's brand and awareness, driving viral adoption, communicating product advantages and business benefits, and generating leads for our sales force and channel partners. We market our offerings as a targeted solution for specific use cases and as an enterprise solution for machine data. We engage with existing customers to provide community-based education and awareness and to promote expanded use of our software within these customers. We host SplunkLive! events across our sales regions to engage with both existing customers and new prospects as well as deliver product training. We host an annual worldwide user conference (".conf") and multiple partner conferences as other ways to support the Splunk community to foster collaboration and help our customers drive further business results from our software.

Research and Development

We invest substantial resources in research and development to enhance our offerings, develop new end market specific solutions and apps, conduct software and quality assurance testing and improve our core technology. Our technical staff monitors and tests our software on a regular basis, and we maintain a regular release process to refine, update, and enhance our existing offerings.

Research and development expense totaled $295.9 million, $215.3 million and $150.8 million for fiscal 2017, 2016 and 2015, respectively.

Intellectual Property

We rely on patent, trademark, copyright and trade secret laws, confidentiality procedures and contractual provisions to protect our technology and intellectual property rights. The nature and extent of legal protection of our intellectual property rights depends on, among other things, its type and the jurisdiction in which it arises. We believe that our intellectual property rights are valuable and important to our business.

We retain ownership of software we develop. All software is licensed to users and primarily provided in object code or as a cloud service pursuant to either shrink-wrap, embedded or on-line licenses, or signed license agreements. These agreements generally contain restrictions on duplication, disclosure and transfer. We are currently unable to measure the full extent of unauthorized use of our software. We believe, however, that such unauthorized use is and can be expected to be a persistent problem that negatively impacts our revenue and financial results.

Despite our efforts to protect our intellectual property rights, they may not be successfully asserted in the future or may be invalidated, circumvented or challenged. In addition, the laws of various foreign countries where our offerings are distributed may not protect our intellectual property rights to the same extent as laws in the United States. For additional information regarding risks related to our intellectual property, see Item 1A, "Risk Factors," of this Annual Report on Form 10-K.

Customers

Our customer base has grown from approximately 450 customers at the end of fiscal 2008 to over 13,000 customers in more than 110 countries, including more than 85 of the Fortune 100 companies, as of January 31, 2017. We exclude users of our trial software from our customer count. We provide offerings to customers of varying sizes, including enterprises, educational institutions and government agencies. No individual customer represented greater than 10% of our total revenues in fiscal 2017, 2016 or 2015. One channel partner represented 28% and a second channel partner represented 16% of our total revenues in fiscal 2017. Our current customer base spans numerous industry verticals, including cloud and online services; education; financial services; government; healthcare/pharmaceuticals; industrials/manufacturing; media/entertainment; retail/ecommerce; technology and telecommunications.

Backlog and Seasonality

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For additional information regarding our backlog and the seasonality in the sale of our offerings, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Seasonality, Cyclicality and Quarterly Trends" of this Annual Report on Form 10-K.

Competition

We compete against a variety of large software vendors and smaller specialized companies, open source projects and custom development efforts, which provide solutions in the specific markets we address. Our principal competitors include:

- IT departments of potential customers which have undertaken custom software development efforts to analyze and manage their machine data;
- companies targeting the big data market by commercializing open source software, such as the various Hadoop distributions and NoSQL data stores, including Elastic;
- security, systems management and other IT vendors, including BMC Software, CA Technologies, Hewlett Packard Enterprise, IBM, Intel, Microsoft, Dell Software and VMware;
- business intelligence vendors, analytics and visualization vendors, including IBM and Oracle; and
- cloud service providers, as well as small, specialized vendors that provide complementary or competitive solutions in enterprise data analytics, log aggregation and management, data warehousing and big data technologies that may compete with our offerings.

The principal competitive factors in our markets are product features, performance and support, product scalability and flexibility, ease of deployment and use, total cost of ownership and time to value. We believe that we generally compete favorably on the basis of these factors. For example, Splunk Enterprise, Splunk Cloud, Splunk Light and our premium solutions all contain rich feature sets that reduce costly deployment cycles typically associated with enterprise software.

Some of our actual and potential competitors have advantages over us, such as longer operating histories, significantly greater financial, technical, marketing or other resources, stronger brand and business user recognition, larger intellectual property portfolios, broader global distribution and presence, and competitive pricing. In addition, our industry is evolving rapidly and is becoming increasingly competitive. Larger and more established companies may focus on operational intelligence and could directly compete with us. Companies may develop open source based alternatives that, customers may conclude, offer equivalent or superior functionality to our Splunk offerings. Smaller companies could also launch new offerings that we do not offer and that could gain market acceptance quickly.

Employees

As of January 31, 2017, we had over 2,700 employees. None of our United States employees is represented by a labor union with respect to his or her employment with us. Employees in certain European countries have the benefits of collective bargaining arrangements at the national level. We have not experienced any work stoppages.

Corporate Information

Our principal executive offices are located at 270 Brannan Street, San Francisco, California 94107, and our telephone number is (415) 848-8400. We were incorporated in California in October 2003 and were reincorporated in Delaware in May 2006.

Our website is located at www.splunk.com and our investor relations website is located at http://investors.splunk.com. The information posted on our website is not incorporated into this Annual Report on Form 10-K. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our investor relations website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. You may also access all of our public filings through the SEC's website at www.sec.gov. Further, a copy of this Annual Report on Form 10-K is located at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, as part of our investor relations website. The contents of these websites are not intended to be incorporated by reference into this report or in any other report or document we file.

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Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties including those described below. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the following risks or others not specified below materialize, our business, financial condition and results of operations could be materially adversely affected. In that case, the trading price of our common stock could decline.

Our future operating results may fluctuate significantly, and our recent operating results may not be a good indication of our future performance.

Our revenues and operating results could vary significantly from period to period as a result of various factors, many of which are outside of our control. For example, we have historically generated a majority of our revenues from perpetual license agreements, whereby we generally recognize the license fee portion of the arrangement upfront, assuming all revenue recognition criteria are satisfied. Our customers also have the choice of entering into agreements for term licenses and/or our cloud services for use of our software, whereby the fee is recognized ratably over the term of the agreement, and, in combination with our introduction of enterprise adoption agreements, or transactions that are designed to enable broad adoption of our software within an enterprise, we have seen the proportion of our transactions where revenues will be recognized ratably generally increase as a percentage of total transactions. While at the beginning of each quarter, we do not know the ratio between transactions that will be recognized upfront and those that will be recognized ratably that we will enter into during the quarter, we anticipate that the proportion of ratably recognized transactions will continue to generally increase over the near term. In the fourth quarter of fiscal 2017, the percentage of license and cloud transactions that will be recognized ratably was 45%. As a result, our operating results and business model could be significantly impacted by unexpected shifts in the ratio between transactions that will be recognized upfront and those that will be recognized ratably. In addition, the size of our licenses varies greatly, and a single, large perpetual license in a given period could distort our operating results. The timing and size of large transactions are often hard to predict in any particular period. Further, a portion of revenue recognized in any given quarter is a result of ratably recognized agreements entered into during previous quarters, including maintenance and support agreements. Consequently, a decline in business from ratably recognized agreements or maintenance and support agreements in any quarter may not be reflected in our revenue results for that quarter. Any such decline, however, will negatively affect our revenues in future quarters. Accordingly, the effect of downturns in sales and market acceptance of our offerings may not be fully reflected in our results of operations until future periods. Comparing our revenues and operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance.

We may not be able to accurately predict our future revenues or results of operations. In particular, approximately half of the revenues we currently recognize each quarter has been attributable to sales made in that same quarter with the balance of the revenues being attributable to sales made in prior quarters in which the related revenues were not recognized upfront. As a result, our ability to forecast revenues on a quarterly or longer-term basis is extremely limited. We base our current and future expense levels on our operating plans and sales forecasts, and our operating costs are expected to be relatively fixed in the short-term. As a result, we may not be able to reduce our costs sufficiently to compensate for an unexpected shortfall in revenues, and even a small shortfall in revenues could disproportionately and adversely affect our financial results for that quarter.

In addition to other risk factors described elsewhere in this “Risk Factors” section, factors that may cause our financial results to fluctuate from quarter to quarter include:

- the timing of our sales during the quarter, particularly because a large portion of our sales occur toward the end of the quarter, or the loss or delay of a few large contracts;

- the mix of revenues attributable to larger transactions as opposed to smaller transactions and the impact that a change in mix may have on the overall average selling price of our offerings;
- the mix of revenues attributable to perpetual licenses and term licenses, subscriptions, enterprise adoption agreements, maintenance and professional services and training, which may impact our revenue, deferred revenue, billings, gross margins and operating income;
- the renewal and usage rates of our customers;
- changes in the competitive dynamics of our market;

- changes in customers’ budgets and in the timing of their purchasing decisions;
- customers delaying purchasing decisions in anticipation of new offerings or software enhancements by us or our competitors;
- customer acceptance of and willingness to pay for new versions of our offerings or new solutions for specific product and end markets;
- our ability to successfully introduce and monetize new offerings and licensing and service models for our new offerings;
- our ability to control costs, including our operating expenses;
- the amount and timing of our stock-based compensation expenses;
- changes in accounting standards, particularly those related to revenue recognition;
- the timing of satisfying revenue recognition criteria;
- our ability to qualify and successfully compete for government contracts;
- the collectability of receivables from customers and resellers, which may be hindered or delayed;
- the removal of metered license enforcement via our software, which could lead to customers delaying renewal or purchasing decisions; and
- general economic and political conditions and uncertainty, both domestically and internationally, as well as economic and political conditions and uncertainty specifically affecting industries in which our customers participate.

Many of these factors are outside our control, and the variability and unpredictability of such factors could result in our failing to meet or exceed our financial expectations for a given period. We believe that quarter-to-quarter comparisons of our revenues, operating results and cash flows may not necessarily be indicative of our future performance.

The market for our offerings is new and unproven and may not grow.

We believe our future success will depend in large part on the growth, if any, in the market for offerings that provide operational intelligence, particularly from machine data. We market our offerings as targeted solutions for specific use cases and as an enterprise solution for machine data. In order to grow our business, we intend to expand the functionality of our offerings to increase their acceptance and use by the broader market as well as develop new offerings. It is difficult to predict customer adoption and renewal rates, customer demand for our offerings, the size and growth rate of this market, the entry of competitive products or the success of existing competitive products. Any expansion in our market depends on a number of factors, including the cost, performance and perceived value associated with our offerings. If our offerings do not achieve widespread adoption or there is a reduction in demand for products in our market caused by a lack of customer acceptance or expansion, technological challenges, decreases in accessible machine data, competing technologies and products, pricing pressure, decreases in corporate or information technology spending, weakening economic conditions, or otherwise, it could result in reduced customer orders, early terminations, reduced renewal rates or decreased revenues, any of which would adversely affect our business operations and financial results. We believe that these are inherent risks and difficulties in this new and unproven market.

We have a short operating history, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.

We have a short operating history, which limits our ability to forecast our future operating results and subjects us to a number of uncertainties, including our ability to plan for and model future growth. We have encountered and will continue to encounter risks and uncertainties frequently experienced by growing companies in developing industries. If our assumptions regarding these uncertainties, which we use to plan our business, are incorrect or change in reaction to changes in our markets, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations and our business could suffer. Moreover, although we have experienced rapid growth historically, we may not continue to grow

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as rapidly in the future. Any success that we may experience in the future will depend in large part on our ability to, among other things:

- improve the performance and capabilities of our offerings and technology and architecture through research and development;
- continue to develop, enhance, expand adoption of and globally deliver our cloud services, including Splunk Cloud, and comply with applicable laws in each jurisdiction in which we offer such services;
- successfully develop, introduce and expand adoption of new offerings;
- acquire new customers and increase revenues from existing customers through increased or broader use of our offerings within their organizations;
- successfully expand our business domestically and internationally;
- maintain and expand our customer base and the ways in which our customers use our offerings;
- successfully compete with other companies, open source projects and custom development efforts that are currently in, or may in the future enter, the markets for our offerings;
- successfully provide our customers a compelling business case to purchase our offerings in a time frame that matches our and our customers’ sales and purchase cycles and at a compelling price point;
- respond timely and effectively to competitor offerings and pricing models;
- appropriately price our offerings;
- manage the costs of providing our cloud services;
- generate leads and convert users of the trial versions of our offerings to paying customers;
- prevent users from circumventing the terms of their licenses and subscriptions;
- continue to invest in our platform to deliver additional enhancements and content for our offerings and to foster an ecosystem of developers and users to expand the use cases of our offerings;
- maintain and enhance our website and cloud services infrastructure to minimize interruptions when accessing our offerings;
- process, store and use our employees, customers’ and other third parties' data in compliance with applicable governmental regulations and other legal obligations related to data privacy, data protection, data transfer, data residency, encryption and security;
- hire, integrate and retain world-class professional and technical talent; and
- successfully integrate acquired businesses and technologies.

If we fail to address the risks and difficulties we face, including those described elsewhere in this "Risk Factors" section, our business will be adversely affected and our business operations and financial results will suffer.

If we fail to effectively manage our growth, our business and operating results could be adversely affected.

Although our business has experienced significant growth, we cannot provide any assurance that our business will continue to grow at the same rate or at all. We have experienced and may continue to experience rapid growth in our headcount and operations, which has placed and will continue to place significant demands on our management and our operational and financial infrastructure. As of January 31, 2017, approximately 30% of our workforce had been employed by us for less than one year. As we continue to grow, we must effectively integrate, develop and motivate a large number of new employees, while maintaining the effectiveness of our business execution and the beneficial aspects of our corporate culture. In particular, we

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intend to continue to make directed and substantial investments to expand our research and development, sales and marketing, and general and administrative organizations, as well as our international operations.

To effectively manage growth, we must continue to improve our operational, financial and management controls, and our reporting systems and procedures by, among other things:

- improving our key business applications, processes and IT infrastructure to support our business needs;
- enhancing information and communication systems to ensure that our employees and offices around the world are well-coordinated and can effectively communicate with each other and our growing base of customers and channel partners;
- enhancing our internal controls to ensure timely and accurate reporting of all of our operations and financial results; and
- appropriately documenting our IT systems and our business processes.

These systems enhancements and improvements will require significant capital expenditures and allocation of valuable management and employee resources. If we fail to implement these improvements effectively, our ability to manage our expected growth, ensure uninterrupted operation of key business systems and comply with the rules and regulations that are applicable to public reporting companies will be impaired. Additionally, if we do not effectively manage the growth of our business and operations, the quality of our offerings could suffer, which could negatively affect our brand, financial results and overall business.

We face intense competition in our markets, and we may be unable to compete effectively for sales opportunities.

Although our offerings target the new and emerging market for software and cloud services that provide operational intelligence, we compete against a variety of large software vendors and smaller specialized companies, open source projects and custom development efforts, which provide solutions in the specific markets we address. Our principal competitors include:

- IT departments of potential customers which have undertaken custom software development efforts to analyze and manage their machine data;
- companies targeting the big data market by commercializing open source software, such as the various Hadoop distributions and NoSQL data stores, including Elastic;
- security, systems management and other IT vendors, including BMC Software, CA Technologies, Hewlett Packard Enterprise, IBM, Intel, Microsoft, Dell Software and VMware;
- business intelligence vendors, analytics and visualization vendors, including IBM and Oracle; and
- cloud service providers, as well as small, specialized vendors that provide complementary and competitive solutions in enterprise data analytics, log aggregation and management, data warehousing and big data technologies that may compete with our offerings.

The principal competitive factors in our markets include features, performance and support, scalability and flexibility, ease of deployment and use, total cost of ownership and time to value. Some of our actual and potential competitors have advantages over us, such as longer operating histories, significantly greater financial, technical, marketing or other resources, stronger brand and business user recognition, larger intellectual property portfolios, broader global distribution and presence and more developed ecosystems of partners and skilled users. Further, competitors may be able to offer products or functionality similar to ours at a more attractive price than we can, such as by integrating or bundling their software products with their other product offerings. In addition, our industry is evolving rapidly and is becoming increasingly competitive. Larger and more established companies may focus on operational intelligence and could directly compete with us. For example, companies may commercialize open source software, such as Hadoop or Elasticsearch, in a manner that competes with our offerings or causes potential customers to believe that such product and our offerings perform the same function. If companies move a greater proportion of their data and computational needs to the cloud, new competitors may emerge that offer services comparable to ours or that are better suited for cloud-based data, and the demand for our offerings may decrease. Smaller companies could also launch new products and services that we do not offer and that could gain market acceptance quickly.

In recent years, there have been significant acquisitions and consolidation by and among our actual and potential competitors. We anticipate this trend of consolidation will continue, which will present heightened competitive challenges to our business. In particular, consolidation in our industry increases the likelihood of our competitors offering bundled or integrated products, and we believe that it may increase the competitive pressures we face with respect to our offerings. If we are unable to differentiate our offerings from the integrated or bundled products of our competitors, such as by offering enhanced functionality, performance or value, we may see decreased demand for those offerings, which would adversely affect our business operations, financial results and growth prospects. Further, it is possible that continued industry consolidation may impact customers' perceptions of the viability of smaller or even medium-sized software firms and consequently their willingness to use software solutions from such firms. Similarly, if customers seek to concentrate their software license purchases in the product portfolios of a few large providers, we may be at a competitive disadvantage regardless of the performance and features of our offerings. We believe that in order to remain competitive at the large enterprise level, we will need to develop and expand relationships with resellers and large system integrators that provide a broad range of products and services. If we are unable to compete effectively, our business operations and financial results could be materially and adversely affected.

Because our business substantially depends on sales of licenses, maintenance and services related to one software product, failure of this offering to satisfy customer demands or to achieve increased market acceptance would adversely affect our results of operations, financial condition and growth prospects.

Although we have several software and services offerings, our business substantially depends on, and we expect our business to continue to substantially depend on, sales of licenses, maintenance and services related to Splunk Enterprise. As such, the market acceptance of Splunk Enterprise is critical to our continued success. Demand for Splunk Enterprise is affected by a number of factors beyond our control, including continued market acceptance of Splunk Enterprise by referenceable accounts for existing and new use cases, the timing of development and release of new products by our competitors, technological change, and growth or contraction in our market. We expect the proliferation of machine data to lead to an increase in the data analysis demands of our customers, and our offerings may not be able to scale and perform to meet those demands or may not be chosen by users for those needs. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of Splunk Enterprise, our business operations, financial results and growth prospects will be materially and adversely affected.

We have a history of losses, and we may not be profitable in the future.

We have incurred net losses in each year since our inception. As a result, we had an accumulated deficit of $1.02 billion at January 31, 2017. Because the market for our offerings is rapidly evolving and has not yet reached widespread adoption, it is difficult for us to predict our future operating results. We expect our operating expenses to increase over the next several years as we hire additional personnel, expand and improve the effectiveness of our distribution channels, improve the performance and scalability of our technology architecture, and continue to develop features and functionality for our offerings. In addition, as we grow as a public company, we have incurred and will continue to incur significant legal, accounting and other operating expenses. If our revenues do not increase to offset these increases in our operating expenses, we may not be profitable in future periods. Our historical revenue growth has been inconsistent and should not be considered indicative of our future performance. Further, in future periods, our revenue growth could slow or our revenues could decline for a number of reasons, including slowing demand for our offerings, increasing competition, a decrease in the growth of our overall market, or our failure, for any reason, to continue to capitalize on growth opportunities. Any failure by us to achieve, sustain or increase profitability on a consistent basis could cause the value of our common stock to decline.

If customers do not expand their use of our offerings beyond the current predominant use cases, our ability to grow our business and operating results may be adversely affected.

Most of our customers currently use our offerings to support application management, IT operations, security and compliance functions. Our ability to grow our business depends in part on our ability to help enable current and future customers to increase their use of our offerings for their existing use cases and expand their use of our offerings to additional use cases, such as facilities management, supply chain management, business analytics, IoT and customer analytics. If we fail to achieve market acceptance of our offerings for these applications, or if a competitor establishes a more widely adopted solution for these applications, our ability to grow our business and financial results will be adversely affected.

We employ multiple, unique and evolving pricing models, which subject us to various pricing and licensing challenges that could make it difficult for us to derive value from our customers and may adversely affect our operating results.

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We employ multiple, unique and evolving pricing models for our offerings. For example, we generally charge our customers for their use of Splunk Enterprise and Splunk Light based on their estimated peak daily indexing capacity. In addition, Splunk Cloud is generally priced based on peak daily indexing capacity and data storage and Splunk Analytics for Hadoop is priced by the number of TaskTracker Nodes (Compute Nodes in YARN) in the respective Hadoop cluster while Splunk User Behavior Analytics is priced by the number of monitored user and system accounts. We offer both perpetual and term licensing options for on-premises offerings, as well as a subscription model for cloud services, which each have different payment schedules, and depending on the mix of such licenses and subscriptions, our revenues or deferred revenues could be adversely affected. Our pricing models may ultimately result in a higher total cost to our customers generally as data volumes increase over time, or may cause our customers to limit or decrease usage in order to stay within the limits of their existing licenses or lower their costs, making it more difficult for us to compete in our markets or negatively impacting our financial results. As the amount of machine data within our customers' organizations grows, we face downward pressure from our customers regarding our pricing, which could adversely affect our revenues and operating margins. In addition, our unique pricing models may allow competitors with different pricing models to attract customers unfamiliar or uncomfortable with our pricing models, which would cause us to lose business or modify our pricing models, both of which could adversely affect our revenues and operating margins. While we introduced enterprise adoption agreements to provide pricing predictability to our customers, we have limited experience selling this type of license and our customers may not find this type of license attractive. We may also introduce, initially in limited availability, variations to our pricing models, including but not limited to, pricing programs that provide broader usage and cost predictability as well as tiered pricing based on deployment models and customer environments. Although we believe that these pricing models will drive net new customers and customer adoption, it is possible that they will not, which could negatively impact our financial results.

Furthermore, while our offerings can measure and limit customer usage, we recently announced that we will remove metered license enforcement via our software under certain circumstances, and in other circumstances, such limitations may be improperly circumvented or otherwise bypassed by users. Similarly, we provide our customers with an encrypted license key for enabling their use of our offerings. There is no guarantee that users of our offerings will abide by the terms of these license limitations or encrypted license keys, and if they do not, we may not be able to capture the full value for the use of our offerings. For example, our enterprise license is generally meant for our customers' internal use only. If our internal use customers improperly make our offerings available to their customers or other third parties, for example, through a cloud or managed service offering not authorized by us, it may displace our end user sales. Additionally, if an internal use customer that has received a volume discount from us improperly makes available our offerings to its end customers, we may experience price erosion and be unable to capture the appropriate value from those end customers.

During fiscal 2015, we increased the license capacity of our entry-level licenses for Splunk Enterprise and decreased the price of Splunk Cloud. Although we believe that this price reduction will enable our customers to more rapidly increase their ability to adopt our offerings, there is no guarantee this will occur. It is possible that such price reduction will not be offset by an increase in order volume, which would have the effect of lowering our revenues and negatively impacting our financial results.

Our license agreements generally provide that we can audit our customers' use of our offerings or require them to certify their actual usage to ensure compliance with the terms of our license agreement at our request. However, a customer may resist or refuse to allow us to audit their usage, in which case we may have to pursue legal recourse to enforce our rights under the license agreement, which would require us to spend money, distract management and potentially adversely affect our relationship with our customers and users.

Our business and growth depend substantially on customers renewing their term licenses, subscriptions for cloud services and maintenance and support agreements with us. Any decline in our customer renewals could adversely affect our future operating results.

While much of our software is sold under perpetual license agreements, all of our maintenance and support agreements are sold on a term basis. In addition, we also enter into term license agreements for our on-premises offerings and subscriptions for cloud services. In order for us to improve our operating results, it is important that our existing customers renew their term licenses, subscriptions and maintenance and support agreements when the contract term expires. Our customers have no obligation to renew their term licenses, subscriptions or maintenance and support agreements with us after the terms have expired. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our offerings, our pricing, the effects of economic conditions, competitive offerings or alterations or reductions in our customers' spending levels. If our customers do not renew their agreements with us or renew on terms less favorable to us, our revenues may decline.

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If we do not effectively expand, train and manage changes to our sales force, we may be unable to add new customers or increase sales to our existing customers, and our revenue growth and business could be adversely affected.

We continue to be substantially dependent on our sales force to effectively execute our sales strategies to obtain new customers and to drive additional use cases and adoption among our existing customers. We believe that there is significant competition for sales personnel with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of sales personnel to support our growth. New hires require significant training and may take significant time before they achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. In addition, as we continue to grow rapidly, a large percentage of our sales force is new to the company and our offerings. As our sales strategies evolve, additional training for new hires and our existing team may be required for our sales force to successfully execute on those strategies. We periodically adjust our sales organization as part of our efforts to optimize our sales operations to grow revenue. If we have not structured our sales organization or compensation for our sales organization properly, if we fail to make changes in a timely fashion or do not effectively manage changes, our revenue growth could be adversely affected. Our growth creates additional challenges and risks with respect to attracting, integrating and retaining qualified employees, particularly sales personnel. If we are unable to hire and train sufficient numbers of effective sales personnel, or the sales personnel are not successful in obtaining new customers or increasing sales to our existing customer base, our business will be adversely affected.

Our sales cycle is long and unpredictable, particularly with respect to large customers, and our sales efforts require considerable time and expense.

Our operating results may fluctuate, in part, because of the resource intensive nature of our sales efforts, the length and variability of the sales cycle of our offerings and the short-term difficulty in adjusting our operating expenses. Our operating results depend in part on sales to large customers. The length of our sales cycle, from initial evaluation to delivery of and payment for the software license, varies substantially from customer to customer. In addition, the introduction of Splunk Cloud has generated interest from our customers who are also considering purchasing and deploying Splunk Enterprise on-premises. In some cases, our customers may wish to consider a combination of these offerings, potentially further slowing our sales cycle. Our sales cycle can extend to more than a year for certain customers, particularly large customers. It is difficult to predict exactly when, or even if, we will make a sale with a potential customer or if a user of a trial version of one of our offerings will upgrade to the paid version of that offering. As a result, large individual sales have, in some cases, occurred in quarters subsequent to those we anticipated, or have not occurred at all. The loss or delay of one or more large transactions in a quarter could impact our operating results for that quarter and any future quarters for which revenues from that transaction is delayed. As a result of these factors, it is difficult for us to forecast our revenues accurately in any quarter. Because a substantial portion of our expenses are relatively fixed in the short-term, our operating results will suffer if revenues fall below our expectations in a particular quarter, which could cause the price of our common stock to decline.

Our international sales and operations subject us to additional risks that can adversely affect our business operations and financial results.

During the fiscal year ended January 31, 2017, we derived approximately 24% of our total revenues from customers outside the United States, and we are continuing to expand our international operations as part of our growth strategy. We currently have sales personnel and sales and support operations in the United States and certain countries around the world. However, our sales organization outside the United States is substantially smaller than our sales organization in the United States, and we rely heavily on our sales channel for non-U.S. sales. Our ability to convince customers to expand their use of our offerings or renew their maintenance and support agreements with us is directly correlated to our direct engagement with the customer. To the extent we are unable to engage with non-U.S. customers effectively with our limited sales force, professional services and support capacity or our indirect sales model, we may be unable to grow sales to existing customers to the same degree we have experienced in the United States.

Our international operations subject us to a variety of risks and challenges, including:

- increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations;

- reliance on channel partners;

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- longer payment cycles and difficulties in collecting accounts receivable or satisfying revenue recognition criteria, especially in emerging markets;
- increased financial accounting and reporting burdens and complexities;
- general economic conditions in each country or region;
- economic and political uncertainty around the world, such as the recent U.S. presidential election and the United Kingdom's referendum in June 2016 in which voters approved an exit from the European Union ("EU"), commonly referred to as "Brexit";
- compliance with multiple and changing foreign laws and regulations, including those governing employment, tax, privacy and data protection, data transfer and the risks and costs of non-compliance with such laws and regulations;
- compliance with laws and regulations for foreign operations, including the United States Foreign Corrupt Practices Act, the United Kingdom Bribery Act, import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell our offerings in certain foreign markets, and the risks and costs of non-compliance, including as a result of any changes in trade relations or restrictions;
- heightened risks of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of financial statements and irregularities in financial statements;
- fluctuations in currency exchange rates and the related effect on our financial results;
- difficulties in repatriating or transferring funds from or converting currencies in certain countries;
- the need for localized software and licensing programs;
- reduced protection for intellectual property rights in some countries and practical difficulties of enforcing intellectual property and contract rights abroad; and
- compliance with the laws of numerous foreign taxing jurisdictions and overlapping of different tax regimes.

Any of these risks could adversely affect our international operations, reduce our international revenues or increase our operating costs, adversely affecting our business operations, financial results and growth prospects.

In addition, compliance with laws and regulations applicable to our international operations increases our cost of doing business in foreign jurisdictions. We may be unable to keep current with changes in foreign government requirements and laws as they change from time to time. Failure to comply with these regulations could have adverse effects on our business. In many foreign countries, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or United States regulations applicable to us. In addition, although we have implemented policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that all of our employees, contractors, channel partners and agents will comply with these laws and policies. Violations of laws or key control policies by our employees, contractors, channel partners or agents could result in delays in revenue recognition, financial reporting misstatements, fines, penalties, or the prohibition of the importation or exportation of our offerings and could have a material adverse effect on our business operations and financial results.

If we are unable to maintain successful relationships with our channel partners, and to help our channel partners enhance their ability to independently sell and deploy our offerings, our business operations, financial results and growth prospects could be adversely affected.

In addition to our direct sales force, we use indirect channel partners, such as distributors and resellers, to license, provide professional services and support our offerings. We derive a portion of our revenues from sales of our offerings through our channel partners, particularly in the Europe, Middle East and Africa, or EMEA, and Asia Pacific, or APAC, regions and for sales to government agencies. We expect that sales through channel partners in all regions will continue to grow as a portion of our revenues for the foreseeable future. As changes in our channel strategy are implemented, including potentially emphasizing partner-sourced transactions, results from sales through our channel partners may be adversely affected.

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Our agreements with our channel partners are generally non-exclusive, meaning our channel partners may offer customers the products of several different companies, including products that compete with ours. If our channel partners do not effectively market and sell our offerings, choose to use greater efforts to market and sell their own products or those of our competitors, or fail to meet the needs of our customers, our ability to grow our business and sell our offerings may be adversely affected. Our channel partners may cease marketing our offerings with limited or no notice and with little or no penalty. The loss of a substantial number of our channel partners, our possible inability to replace them, or the failure to recruit additional channel partners could materially and adversely affect our results of operations. In addition, sales by channel partners are more likely than direct sales to involve collectability concerns, in particular sales by our channel partners in developing markets, and accordingly, variations in the mix between revenues attributable to sales by channel partners and revenues attributable to direct sales may result in fluctuations in our operating results.

Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with our channel partners, and to help our channel partners enhance their ability to independently sell and deploy our offerings. If we are unable to maintain our relationships with these channel partners, or otherwise develop and expand our indirect distribution channel, our business, results of operations, financial condition or cash flows could be adversely affected.

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

Our software is deployed in a wide variety of technology environments. Increasingly, our software has been deployed in large scale, complex technology environments, and we believe our future success will depend on our ability to increase sales of our software licenses for use in such deployments. We often must assist our customers in achieving successful implementations for large, complex deployments. If we or our customers are unable to implement our software successfully, are unable to do so in a timely manner or if an improper implementation or change in system configuration results in errors or loss of data, customer perceptions of our company may be impaired, our reputation and brand may suffer, and customers may choose not to increase their use of our offerings. In addition, our software imposes server load and index storage requirements for implementation. If our customers do not have the server load capacity or the storage capacity required, they may not be able to effectively implement and use our software and, therefore, may not choose to increase their use of our offerings.

Our customers and third-party partners may need training in the proper use of and the variety of benefits that can be derived from our software to maximize its potential. If our software is not implemented or used correctly or as intended, inadequate performance, errors or data loss may result. Because our customers rely on our software and maintenance and support services to manage a wide range of operations, the incorrect or improper implementation or use of our software, our failure to train customers on how to efficiently and effectively use our software, or our failure to provide maintenance services to our customers, may result in negative publicity or legal claims against us. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for follow-on sales of our offerings.

Interruptions or performance problems associated with our technology and infrastructure, and our reliance on Software-as-a-Service ("SaaS") technologies from third parties, may adversely affect our business operations and financial results.

Our continued growth depends in part on the ability of our existing and potential customers to use and access our cloud services or our website in order to download our on-premises software or encrypted access keys for our software within an acceptable amount of time. We have experienced, and may in the future experience, website and service disruptions, storage failures, outages and other performance problems due to a variety of factors, including infrastructure changes, human or software errors, capacity constraints due to an overwhelming number of users accessing our website and services simultaneously and denial of service or fraud or security attacks. In some instances, we may not be able to identify the cause or causes of these website and service performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve our website and service performance, especially during peak usage times and as our offerings become more complex and our user traffic increases. If our website or cloud services are unavailable or if our users are unable to download our software or encrypted access keys within a reasonable amount of time or at all, our business would be negatively affected. We expect to continue to make significant investments to maintain and improve website and service performance and to enable rapid releases of new features and apps for our offerings. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be adversely affected.

In addition, we rely heavily on hosted SaaS technologies from third parties in order to operate critical functions of our business, including enterprise resource planning services and customer relationship management services. Further, our cloud services, such as Splunk Cloud, are hosted exclusively by third parties. We currently offer a 100% uptime service level agreement ("SLA") for Splunk Cloud. If any of these services fail or become unavailable due to extended outages, interruptions

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or because they are no longer available on commercially reasonable terms or prices, or if we are unable to deliver 100% uptime under our SLAs, our revenues could be reduced, our reputation could be damaged, we could be exposed to legal liability, expenses could increase, our ability to manage our finances could be interrupted and our processes for managing sales of our offerings and supporting our customers could be impaired until equivalent services, if available, are identified, obtained and implemented, all of which could adversely affect our business.

Our systems and third-party systems upon which we rely are also vulnerable to damage or interruption from catastrophic occurrences such as earthquakes, floods, fires, power loss, telecommunication failures, terrorist attacks, criminal acts, geopolitical events and similar events. Our United States corporate offices and certain of the facilities we lease to house our computer and telecommunications equipment are located in the San Francisco Bay Area, a region known for seismic activity. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems at our and third parties' hosting facilities could result in interruptions, performance problems or failure of our infrastructure.

Splunk Cloud, as well as cloud services for other products, are relatively new offerings, and market adoption of these cloud services could adversely affect our business.

A cloud-based model of software deployment is one in which a software provider typically licenses an application to customers for use as a service on demand through web browser technologies. Delivering software under a cloud-based model results in higher costs and expenses when compared to sales of on-premises licenses for similar functionality. In recent years, companies have begun to expect that key software, such as customer relationship management and enterprise resource planning systems, be provided through a cloud-based model. Many of our offerings are now made available in the cloud as well as on-premises. Customers can sign up for Splunk Cloud and other services and avoid the need to provision, deploy and manage internal infrastructure. In order to provide Splunk Cloud and other services via a cloud-based deployment, we have made and will continue to make capital investments and incur substantial costs to implement and maintain this alternative business model, which could negatively affect our financial results. We expect that over time the percentage of our revenue attributable to our cloud services will increase. If our cloud services, in particular Splunk Cloud, do not garner widespread market adoption, our financial results, business model and competitive position could suffer. If we are unable to decrease the cost of providing our cloud services, our gross margins may decrease and negatively impact our overall financial results. Transitioning to a cloud-based model also impacts the way we recognize revenues, which may affect our operating results and could have an adverse effect on our business operations and financial results.

Even with these investments and costs, the cloud-based business model for Splunk Cloud and other services may not be successful, as some customers may desire only on-premises licenses to our offerings. Our cloud services may raise concerns among customers, including concerns regarding changes to pricing models, service availability, scalability, ability to use customer-developed apps, information security of a cloud-based service and hosted data and access to data while offline or once a subscription has expired. Market acceptance of our cloud services can be affected by a variety of factors, including but not limited to: security, reliability, performance, terms of service, support terms, customer preference, community engagement, customer concerns with entrusting a third party to store and manage their data, public concerns regarding data privacy and the enactment of restrictive laws or regulations in the affected jurisdictions. Moreover, sales of Splunk Cloud and other services could displace sales of our on-premises software licenses. Alternatively, subscriptions to Splunk Cloud and other services that exceed our expectations may unexpectedly increase our costs, lower our margins, lower our profits or increase our losses and otherwise negatively affect our projected financial results.

We are subject to governmental export and import controls that could impair our ability to compete in international markets or subject us to liability if we violate the controls.

Our offerings are subject to United States export controls, and we incorporate encryption technology into certain of our offerings. These encryption offerings and the underlying technology may be exported outside of the United States only with the required export authorizations, including by license.

Furthermore, our activities are subject to the U.S. economic sanctions laws and regulations that prohibit the shipment of certain products and services without the required export authorizations or export to countries, governments, and persons targeted by U.S. sanctions. While we take precautions to prevent our offerings from being exported in violation of these laws, including obtaining authorizations for our encryption offerings, implementing IP address blocking and screenings against U.S. Government and international lists of restricted and prohibited persons, we cannot guarantee that the precautions we take will prevent violations of export control and sanctions laws.

We also note that if our channel partners fail to obtain appropriate import, export or re-export licenses or permits, we may also be adversely affected, through reputational harm as well as other negative consequences including government investigations and penalties. We presently incorporate export control compliance requirements in our channel partner agreements. Complying with export control and sanctions regulations for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities.

Violations of U.S. sanctions or export control laws can result in fines or penalties, including civil penalties of up to $250,000 or twice the value of the transaction, whichever is greater, per violation. In the event of criminal knowing and willful violations of these laws, fines of up to $1 million per violation and possible incarceration for responsible employees and managers could be imposed.

While we have extensive procedures in place, downloads of our free software may have been made in potential violation of the export control and economic sanctions laws. We filed Initial Voluntary Self Disclosures in October 2014 with the U.S. Commerce Department's Bureau of Industry and Security ("BIS") and the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") and filed Final Voluntary Disclosures with BIS and OFAC in June 2015. On May 4, 2016, BIS notified us that it had completed its review of this matter and closed its review with the issuance of a Warning Letter. On August 5, 2016, OFAC notified us that it had completed its review of this matter and closed its review with the issuance of a Cautionary Letter. No monetary penalties or other sanctions were imposed by either agency in connection with their investigations.

Also, various countries, in addition to the United States, regulate the import and export of certain encryption and other technology, including import and export permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our offerings or could limit our customers' ability to implement our offerings in those countries. Changes in our offerings or future changes in export and import regulations may create delays in the introduction of our offerings in international markets, prevent our customers with international operations from deploying our offerings globally or, in some cases, prevent the export or import of our offerings to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our offerings by, or in our decreased ability to export or sell our offerings to, existing or potential customers with international operations. Any decreased use of our offerings or limitation on our ability to export or sell our offerings would likely adversely affect our business operations and financial results.

If our new offerings and product enhancements do not achieve sufficient market acceptance, our financial results and competitive position will suffer.

We spend substantial amounts of time and money to research and develop new offerings and enhanced versions of our existing offerings to incorporate additional features, improve functionality or other enhancements in order to meet our customers' rapidly evolving demands. In addition, we continue to invest in solutions that can be deployed on top of our platform to target specific use cases and to cultivate our community of application developers and users. When we develop a new or enhanced version of an existing offering, we typically incur expenses and expend resources upfront to market, promote and sell the new offering. Therefore, when we develop and introduce new or enhanced offerings, they must achieve high levels of market acceptance in order to justify the amount of our investment in developing and bringing them to market. For example, if our cloud services such as Splunk Cloud do not garner widespread market adoption and implementation, our financial results and competitive position could suffer.

Further, we may make changes to our offerings that our customers do not like, find useful or agree with. We may also discontinue certain features, begin to charge for certain features that are currently free or increase fees for any of our features or usage of our offerings.

Our new offerings or product enhancements and changes to our existing offerings could fail to attain sufficient market acceptance for many reasons, including:

- our failure to predict market demand accurately in terms of product functionality and to supply offerings that meet this demand in a timely fashion;
- defects, errors or failures;
- negative publicity about their performance or effectiveness;
- delays in releasing to the market our new offerings or enhancements to our existing offerings to the market;

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- introduction or anticipated introduction of competing products by our competitors;

- poor business conditions for our end-customers, causing them to delay IT purchases; and

- reluctance of customers to purchase products incorporating open source software.

If our new offerings or enhancements and changes do not achieve adequate acceptance in the market, our competitive position will be impaired, and our revenues will be diminished. The adverse effect on our financial results may be particularly acute because of the significant research, development, marketing, sales and other expenses we will have incurred in connection with the new offerings or enhancements.

Our business depends, in part, on sales to the public sector, and significant changes in the contracting or fiscal policies of the public sector could have a material adverse effect on our business.

We derive a portion of our revenues from contracts with federal, state, local and foreign governments, and we believe that the success and growth of our business will continue to depend on our successful procurement of government contracts. Factors that could impede our ability to maintain or increase the amount of revenues derived from government contracts, include:

- changes in fiscal or contracting policies;

- decreases in available government funding;

- changes in government programs or applicable requirements;

- the adoption of new laws or regulations or changes to existing laws or regulations;

- potential delays or changes in the government appropriations or other funding authorization processes; and

- delays in the payment of our invoices by government payment offices.

The occurrence of any of the foregoing could cause governments and governmental agencies to delay or refrain from purchasing licenses of our offerings in the future or otherwise have an adverse effect on our business operations and financial results.

Failure to comply with laws or regulations applicable to our business could cause us to lose customers in the public sector, subject us to fines and penalties, or negatively impact our ability to contract with the public sector.

We must comply with laws and regulations relating to the formation, administration and performance of contracts with the public sector, including United States federal, state and local governmental bodies, which affect how our channel partners and how we do business with governmental agencies. These laws and regulations may impose added costs on our business, and failure to comply with these or other applicable regulations and requirements, including non-compliance in the past, could lead to claims for damages or other relief, penalties, termination of contracts, loss of exclusive rights in our intellectual property, and temporary suspension or permanent debarment from government contracting. Any such damages, penalties, disruptions or limitations in our ability to do business with the public sector could have a material adverse effect on our business operations and financial results.

Real or perceived errors, failures or bugs in our offerings could adversely affect our financial results and growth prospects.

Because our offerings are complex, undetected errors, failures or bugs may occur, especially when new offerings, versions or updates are released. Our on-premises software is often installed and used in large-scale computing environments with different operating systems, system management software, and equipment and networking configurations, which may cause errors or failures of our software or other aspects of the computing environment into which it is deployed. In addition, deployment of our software into complicated, large-scale computing environments may expose undetected errors, failures or bugs in our software. Despite testing by us, errors, failures or bugs may not be found in our offerings until they are released to our customers. In the past, we have discovered errors, failures and bugs in some of our offerings after their introduction. Real or perceived errors, failures or bugs in our offerings could result in negative publicity, loss of or delay in market acceptance of our offerings, loss of competitive position or claims by customers for losses sustained by them. In such an event, we may be

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required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem.

In addition, if an actual or perceived failure of our software occurs in a customer's deployment or in our cloud services, regardless of whether the failure is attributable to our software, the market perception of the effectiveness of our offerings could be adversely affected. Alleviating any of these problems could require significant expenditures of our capital and other resources and could cause interruptions, delays or cessation of our licensing, which could cause us to lose existing or potential customers and could adversely affect our financial results and growth prospects.

Failure to protect our intellectual property rights could adversely affect our business.

Our success depends, in part, on our ability to protect proprietary methods and technologies that we develop under patent and other intellectual property laws of the United States and other jurisdictions outside of the United States so that we can prevent others from using our inventions and proprietary information. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology, and our business might be adversely affected. However, defending our intellectual property rights might entail significant expenses. Any of our patent rights, copyrights, trademarks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Our issued patents and any patents issued in the future may not provide us with any competitive advantages, and our patent applications may never be granted. Additionally, the process of obtaining patent protection is expensive and time-consuming, and we may not be able to file and prosecute all necessary or desirable patent applications, or we may not be able to do so at a reasonable cost or in a timely manner. Even if issued, there can be no assurance that these patents will adequately protect our intellectual property, as the legal standards relating to the infringement, validity, enforceability and scope of protection of patent and other intellectual property rights are complex and often uncertain.

Any patents that are issued may subsequently be invalidated or otherwise limited, allowing other companies to develop offerings that compete with ours, which could adversely affect our competitive business position, business prospects and financial condition. In addition, issuance of a patent does not guarantee that we have a right to practice the patented invention. Patent applications in the United States are typically not published until 18 months after filing or, in some cases, not at all, and publications of discoveries in industry-related literature lag behind actual discoveries. We cannot be certain that we were the first to use the inventions claimed in our issued patents or pending patent applications or otherwise used in our offerings, that we were the first to file patent applications, or that third parties do not have blocking patents that could be used to prevent us from marketing or practicing our offerings or technology. Effective patent, trademark, copyright and trade secret protection may not be available to us in every country in which our offerings are available. The laws of some foreign countries may not be as protective of intellectual property rights as those in the United States (in particular, some foreign jurisdictions do not permit patent protection for software), and mechanisms for enforcement of intellectual property rights may be inadequate. Additional uncertainty may result from recent and future changes to intellectual property legislation in the United States (including the "America Invents Act") and other countries and from interpretations of the intellectual property laws of the United States and other countries by applicable courts and agencies. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our intellectual property.

We rely in part on trade secrets, proprietary know-how and other confidential information to maintain our competitive position. We generally enter into confidentiality agreements with our employees, consultants, vendors and customers, and generally limit access to and distribution of our proprietary information. Although we endeavor to enter into non-disclosure agreements with our employees, licensees and others who may have access to this information, we cannot assure you that these agreements or other steps we have taken will prevent unauthorized use, disclosure or reverse engineering of our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the United States, and many foreign countries do not enforce these laws as diligently as government agencies and private parties in the United States. Moreover, third parties may independently develop technologies or products that compete with ours, and we may be unable to prevent this competition.

We might be required to spend significant resources to monitor and protect our intellectual property rights. We may initiate claims or litigation against third parties for infringement of our proprietary rights or to establish the validity of our proprietary rights. Litigation also puts our patents at risk of being invalidated or interpreted narrowly. Additionally, we may provoke third parties to assert counterclaims against us. We may not prevail in any lawsuits that we initiate, and the damages or other remedies awarded, if any, may not be adequate to compensate us for the harm suffered. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel, which may adversely affect our business operations or financial results.

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We have been, and may in the future be, subject to intellectual property rights claims by third parties, which are extremely costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies.

Companies in the software and technology industries, including some of our current and potential competitors, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. In addition, many of these companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. The litigation may involve patent holding companies or other adverse patent owners that have no relevant product revenues and against which our patents may therefore provide little or no deterrence. From time-to-time, third parties, including certain of these leading companies, have asserted and may assert patent, copyright, trademark or other intellectual property rights against us, our channel partners, our technology partners or our customers. We have received, and may in the future receive, notices that claim we have misappropriated, misused, or infringed other parties' intellectual property rights, and, to the extent we gain greater market visibility, we face a higher risk of being the subject of intellectual property infringement claims, which is not uncommon with respect to the enterprise software market.

There may be third-party intellectual property rights, including issued or pending patents, that cover significant aspects of our technologies or business methods. We may be exposed to increased risk of being the subject of intellectual property infringement claims as a result of acquisitions, as, among other things, we have a lower level of visibility into the development process with respect to such technology or the care taken to safeguard against infringement risks. Any intellectual property claims, with or without merit, could be very time-consuming, could be expensive to settle or litigate and could divert our management's attention and other resources. These claims could also subject us to significant liability for damages, potentially including treble damages if we are found to have willfully infringed patents or copyrights. These claims could also result in our having to stop using technology found to be in violation of a third party's rights. We might be required to seek a license for the intellectual property, which may not be available on reasonable terms or at all. Even if a license were available, we could be required to pay significant royalties, which would increase our operating expenses. As a result, we may be required to develop alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology for any infringing aspect of our business, we would be forced to limit or stop sales of our offerings and may be unable to compete effectively. Any of these results would adversely affect our business operations and financial results.

We offer free trials, trial-to-buy and other next-generation go-to-market strategies, and we may not be able to realize the benefits of these strategies.

We offer trial version licenses, including online sandboxes, of certain of our offerings to users free of charge as part of our overall strategy of developing the market for offerings that provides operational intelligence and promoting additional penetration of our offerings in the markets in which we compete. Some users never convert from the trial version to the paid version. In fiscal 2017, we introduced free development-test licenses for certain commercial customers as part of our strategy to help enable such customers to expand their use of our offerings to additional use cases. To the extent that users of our trial version do not become paying customers, or our current customers do not expand their use of our offerings beyond the current predominant use cases, we will not realize the intended benefits of these marketing strategies and our ability to grow our revenues will be adversely affected.

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

We believe that maintaining and enhancing the "Splunk" brand identity is critical to our relationships with our customers and channel partners and to our ability to attract new customers and channel partners. The successful promotion of our brand will depend largely upon our marketing efforts, our ability to continue to offer high-quality offerings and our ability to successfully differentiate our offerings from those of our competitors. Our brand promotion activities may not be successful or yield increased revenues. In addition, independent industry analysts often provide reviews of our offerings, as well as those of our competitors, and perception of our offerings in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive as compared to those of our competitors' products and services, our brand may be adversely affected.

Moreover, it may be difficult to maintain and enhance our brand in connection with sales through channel or strategic partners. The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive, as we expand into new markets and as more sales are generated through our channel partners. To the extent that these activities yield increased revenues, these revenues may not offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, we may have reduced pricing power relative to competitors with stronger brands, and we could lose customers and channel partners, all of which would adversely affect our business operations and financial results.

Our future performance depends in part on proper use of our community website, Splunkbase, and support from third-party software developers.

Our offerings enable third-party software developers to build apps on top of our platform. We operate a community website, Splunkbase, for sharing these third-party apps, including add-ons and extensions. While we expect Splunkbase to support our sales and marketing efforts, it also presents certain risks to our business, including:

- third-party developers may not continue developing or supporting the software apps that they share on Splunkbase;

- we cannot provide any assurance that these apps meet the same quality standards that we apply to our own development efforts, and, to the extent they contain bugs or defects, they may create disruptions in our customers' use of our offerings or negatively affect our brand;

- we do not currently provide support for software apps developed by third-party software developers, and users may be left without support and potentially cease using our offerings if the third-party software developers do not provide support for these apps;

- these third-party software developers may not possess the appropriate intellectual property rights to develop and share their apps; and

- some of these developers may use the insight they gain using our offerings and from documentation publicly available on our website to develop competing products.

Many of these risks are not within our control to prevent, and our brand may be damaged if these apps, add-ons and extensions do not perform to our customers' satisfaction and that dissatisfaction is attributed to us.

Our use of "open source" software could negatively affect our ability to sell our offerings and subject us to possible litigation.

We use open source software in our offerings and expect to continue to use open source software in the future. We may face claims from others alleging infringement of intellectual property rights in what we believe to be licensed open source software, or seeking to enforce the terms of an open source license, including by demanding release of our proprietary source code that was developed using or linked with such open source software. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our offerings, any of which would have a negative effect on our business and operating results. In addition, if the license terms for the open source code change, we may be forced to re-engineer our offerings or incur additional costs to find alternative tools. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties, support, indemnity or assurance of title or controls on origin of the software. Further, some open source projects have known vulnerabilities and architectural instabilities and are provided on an "as-is" basis. Many of these risks associated with usage of open source software, such as the lack of warranties, support or assurances of title, cannot be eliminated, and could, if not properly addressed, negatively affect the performance of our offerings and our business. While we have established processes to help alleviate these risks, we cannot assure that these measures will reduce or completely shield us from these risks.

If we or our third-party service providers experience a security breach or unauthorized parties otherwise obtain access to our customers' data, our data, or our cloud services, our offerings may be perceived as not being secure, our reputation may be harmed, demand for our offerings may be reduced, and we may incur significant liabilities.

Our offerings involve the storage and transmission of data, and security breaches could result in the loss of this information, litigation, indemnity obligations and other liability. While we have taken steps to protect the confidential information that we have access to, including confidential information we may obtain through our customer support services or customer usage of our cloud services, our security measures could be breached. In addition, we do not directly control content that customers store in our offerings. If customers use our offerings for the transmission or storage of personally identifiable information and our security measures are or are believed to have been breached as a result of third-party action, employee error, malfeasance or otherwise, our reputation could be damaged, our business may suffer, and we could incur significant liability.

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We also process, store and transmit our own data as part of our business and operations. This data may include personally identifiable, confidential or proprietary information. There can be no assurance that any security measures that we or our third-party service providers have implemented will be effective against current or future security threats. While we have taken steps to protect the integrity, confidentiality and security of our data, our security measures could fail and result in unauthorized access to or disclosure, modification, misuse, loss or destruction of such data.

Because there are many different security breach techniques and such techniques continue to evolve, we may be unable to anticipate attempted security breaches and implement adequate preventative measures. Third parties may also conduct attacks designed to temporarily deny customers access to our cloud services. Any security breach could result in a loss of customer confidence in the security of our offerings and damage to our brand, reduce the demand for our offerings, disrupt normal business operations, require us to spend material resources to investigate or correct the breach, expose us to legal liabilities, including litigation, regulatory enforcement, and indemnity obligations, and adversely affect our revenues and operating results. These risks may increase as we continue to grow the number and scale of our cloud services, and process, store, and transmit increasingly large amounts of data.

We use third-party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support, credit card processing and other functions. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third-party vendor, such measures cannot provide absolute security.

We are subject to a number of legal requirements, contractual obligations and industry standards regarding security, data protection, and privacy and any failure to comply with these requirements, obligations or standards could have an adverse effect on our reputation, business, financial condition and operating results.

Privacy and data information security have become a significant issue in the United States and in many other countries where we have employees and operations and where we offer licenses or subscriptions to our offerings. The regulatory framework for privacy and personal information security issues worldwide is rapidly evolving and is likely to remain uncertain for the foreseeable future. The U.S. federal and various state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations limiting, or laws and regulations regarding the collection, distribution, use, disclosure, storage, and security of personal information. Some of these requirements include obligations of companies to notify individuals of security breaches involving particular personal information, which could result from breaches experienced by us or our service providers. Even though we may have contractual protections with our service providers, a security breach could impact our reputation, harm our customer confidence, hurt our sales and expansion into new markets or cause us to lose existing customers, and could expose us to potential liability or require us to expend significant resources on data security and in responding to such breach.

Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal framework with which we or our customers must comply. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of data that identifies or may be used to identify or locate an individual, such as names, email addresses and, in some jurisdictions, Internet Protocol (“IP”) addresses. These laws and regulations often are more restrictive than those in the United States and are rapidly evolving. For example, in 2016, a new EU data protection regime, the General Data Protection Regulation (“GDPR”) was adopted, and we self-certified to the U.S.-EU Privacy Shield developed by the U.S. Department of Commerce and the European Commission to provide U.S. companies with a valid data transfer mechanism under EU law to permit them to transfer personal data from the European Union to the United States. The U.S.-EU Privacy Shield is subject to annual review and may be challenged, suspended or invalidated. Complying with the GDPR or other new data protection laws and regulations may cause us to incur substantial operational costs or require us to modify our data handling practices.

Non-compliance could result in proceedings against us by governmental entities or others and may otherwise adversely impact our business, financial condition and operating results.

In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or contractually apply to us. We also expect that there will continue to be new proposed laws and regulations concerning privacy, data protection and information security, and we cannot yet determine the impact such future laws, regulations and standards may have on our business. New laws, amendments to or re-interpretations of existing laws and regulations, industry standards, contractual obligations and other obligations may require us to incur additional costs and restrict our business operations. Because the interpretation and application of laws and other obligations relating to privacy and data protection are still uncertain, it is possible that these laws and other obligations may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our offerings. If so, in addition to the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our offerings, which could have an adverse effect on our business. We may be unable to make such changes and modifications in a commercially reasonable manner or at all, and our ability to develop new offerings and features could be limited. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business.

Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our customers may limit the use and adoption of, and reduce the overall demand for, our offerings. For example, as a service provider to our customers, we may collect and use personally identifiable information, including protected health information, which may subject us to a number of data protection, security, privacy and other government- and industry-specific requirements, including those that require companies to notify individuals of data security incidents involving certain types of personal data, such as the Health Insurance Portability and Accountability Act of 1996 (“HIPAA”). Privacy and personal information security concerns, whether valid or not valid, may inhibit market adoption of our offerings particularly in certain industries and foreign countries.

If we are unable to attract and retain leadership and key personnel, our business could be adversely affected.

We depend on the continued contributions of our leadership, senior management and other key personnel, the loss of whom could adversely affect our business. With any change in leadership, there is a risk to organizational effectiveness and employee retention as well as the potential for disruption to our business. All of our executive officers and key employees are at-will employees, which means they may terminate their employment relationship with us at any time. We do not maintain a key-person life insurance policy on any of our officers or other employees.

Our future success also depends on our ability to identify, attract and retain highly skilled technical, managerial, finance and other personnel, particularly in our sales and marketing, research and development, general and administrative, and professional service departments. We face intense competition for qualified individuals from numerous software and other technology companies.

In addition, competition for qualified personnel, particularly software engineers, is particularly intense in the San Francisco Bay Area, where our headquarters are located. We may incur significant costs to attract and retain them, and we may lose new employees to our competitors or other technology companies before we realize the benefit of our investment in recruiting and training them. As we move into new geographies, we will need to attract and recruit skilled personnel in those areas. If we are unable to attract and retain suitably qualified individuals who are capable of meeting our growing technical, operational and managerial requirements, on a timely basis or at all, our business will be adversely affected.

Volatility or lack of performance in our stock price may also affect our ability to attract and retain our key employees. Many of our senior management personnel and other key employees have become, or will soon become, vested in a substantial amount of stock, restricted stock units or stock options. Employees may be more likely to leave us if the shares they own or the shares underlying their vested restricted stock units or options have significantly appreciated in value relative to the original purchase prices of the shares or the exercise prices of the options, or, conversely, if the exercise prices of the options that they hold are significantly above the market price of our common stock. If we are unable to retain our employees, or if we need to increase our compensation expenses to retain our employees, our business, results of operations, financial condition and cash flows would be adversely affected.

If poor advice or misinformation is spread through our community website, Splunk Answers, users of our offerings may experience unsatisfactory results from using our offerings, which could adversely affect our reputation and our ability to grow our business.

We host Splunk Answers for sharing knowledge about how to perform certain functions with our offerings. Our users are increasingly turning to Splunk Answers for support in connection with their use of our offerings. We do not review or test the information that non-Splunk employees post on Splunk Answers to ensure its accuracy or efficacy in resolving technical issues. Therefore, we cannot ensure that all the information listed on Splunk Answers is accurate or that it will not adversely affect the performance of our offerings. Furthermore, users who post such information on Splunk Answers may not have adequate rights to the information to share it publicly, and we could be the subject of intellectual property claims based on our hosting of such information. If poor advice or misinformation is spread among users of Splunk Answers, our customers or other users of our offerings may experience unsatisfactory results from using our offerings, which could adversely affect our reputation and our ability to grow our business.

Prolonged economic uncertainties or downturns could materially adversely affect our business.

Current or future economic downturns or uncertainty could adversely affect our business operations or financial results. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from financial and credit market fluctuations, trade uncertainty and terrorist attacks on the United States, Europe, Asia Pacific or elsewhere, could cause a decrease in corporate spending on enterprise software in general and negatively affect the rate of growth of our business.

General worldwide economic conditions have experienced a significant downturn and continue to remain unstable. These conditions make it extremely difficult for our customers and us to forecast and plan future business activities accurately, and they could cause our customers to reevaluate their decision to purchase our offerings, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. Furthermore, during challenging economic times our customers may face issues in gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for doubtful accounts, which would adversely affect our financial results.

We have a significant number of customers in the business services, energy, financial services, healthcare and pharmaceuticals, technology, manufacturing, media and entertainment, online services, retail, telecommunications and travel and transportation industries. A substantial downturn in any of these industries may cause firms to react to worsening conditions by reducing their capital expenditures in general or by specifically reducing their spending on information technology. Customers in these industries may delay or cancel information technology projects or seek to lower their costs by renegotiating vendor contracts. To the extent purchases of our offerings are perceived by customers and potential customers to be discretionary, our revenues may be disproportionately affected by delays or reductions in general information technology spending. Also, customers may choose to develop in-house software as an alternative to using our offerings. Moreover, competitors may respond to market conditions by lowering prices and attempting to lure away our customers. In addition, the increased pace of consolidation in certain industries may result in reduced overall spending on our offerings.

We cannot predict the timing, strength or duration of any economic slowdown, instability or recovery, generally or within any particular industry or geography. If the economic conditions of the general economy or industries in which we operate worsen from present levels, our business operations and financial results could be adversely affected.

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

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features or enhance our offerings, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be adversely affected.

We have in the past made and may in the future make acquisitions that could prove difficult to integrate and/or adversely affect our business operations and financial results.

From time to time, we may choose to expand by making acquisitions that could be material to our business, results of operations, financial condition and cash flows. Our ability as an organization to successfully acquire and integrate technologies or businesses is unproven. Acquisitions involve many risks, including the following:

- an acquisition may negatively affect our financial results because it may require us to incur charges or assume substantial debt or other liabilities, may cause adverse tax consequences or unfavorable accounting treatment, may expose us to claims and disputes by third parties, including intellectual property claims and disputes, or may not generate sufficient financial return to offset additional costs and expenses related to the acquisition;

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- potential goodwill impairment charges related to acquisitions;
- costs and potential difficulties associated with the requirement to test and assimilate the internal control processes of the acquired business;
- we may encounter difficulties or unforeseen expenditures in integrating the business, technologies, products, personnel or operations of any company that we acquire, particularly if key personnel of the acquired company decide not to work for us or if we are unable to retain key personnel;
- we may not realize the expected benefits of the acquisition;
- an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- an acquisition may result in a delay or reduction of customer purchases for both us and the company acquired due to customer uncertainty about continuity and effectiveness of service from either company;
- the potential impact on relationships with existing customers, vendors and distributors as business partners as a result of acquiring another company or business that competes with or otherwise is incompatible with those existing relationships;
- the potential that our due diligence of the acquired company or business does not identify significant problems or liabilities;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, including but not limited to claims from former employees, customers or other third parties;
- we may encounter difficulties in, or may be unable to, successfully sell any acquired products;
- an acquisition may involve the entry into geographic or business markets in which we have little or no prior experience or where competitors have stronger market positions;
- an acquisition may require us to comply with additional laws and regulations or result in liabilities resulting from the acquired company’s pre-acquisition failure to comply with applicable laws;
- our use of cash to pay for an acquisition would limit other potential uses for our cash;
- if we incur debt to fund such acquisition, such debt may subject us to material restrictions on our ability to conduct our business as well as financial maintenance covenants; and
- to the extent that we issue a significant amount of equity securities in connection with future acquisitions, existing stockholders may be diluted and earnings per share may decrease.

The occurrence of any of these risks could have a material adverse effect on our business operations and financial results.

If currency exchange rates fluctuate substantially in the future, our financial results, which are reported in U.S. dollars, could be adversely affected.

As we continue to expand our international operations, we become more exposed to the effects of fluctuations in currency exchange rates. Although our sales contracts are denominated in U.S. dollars, and therefore our revenues are not subject to foreign currency risk, a strengthening of the U.S. dollar could increase the real cost of our offerings to our customers outside of the United States, adversely affecting our business operations and financial results. We incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency. Fluctuations in the exchange rates between the U.S. dollar and other currencies could result in the dollar equivalent of such expenses being higher. This could have a negative impact on our reported operating results. Although we engage in limited hedging strategies, any such strategies, such as forward contracts, options and foreign exchange swaps, related to transaction exposures that we may implement to mitigate this risk may not eliminate our exposure to foreign exchange fluctuations.

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

Recent changes to United States tax laws, including limitations on the ability of taxpayers to claim and utilize foreign tax credits and the deferral of certain tax deductions until earnings outside of the United States are repatriated to the United States, as well as changes to United States tax laws that may be enacted in the future, could impact the tax treatment of our foreign earnings. Due to expansion of our international business activities, any changes in the United States taxation of such activities may increase our worldwide effective tax rate and adversely affect our financial position and results of operations.

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

In general, under Section 382 of the United States Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses, or NOLs, to offset future taxable income. If our existing NOLs are subject to limitations arising from previous ownership changes, our ability to utilize NOLs could be limited by Section 382 of the Code. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code. Furthermore, our ability to utilize NOLs of companies that we may acquire in the future may be subject to limitations. There is also a risk that either under existing regulations or due to regulatory changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. For these reasons, we may not be able to utilize a portion of the NOLs reflected on our balance sheet, even if we attain profitability.

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

We do not collect sales and use, value added and similar taxes in all jurisdictions in which we have sales, based on our belief that such taxes are not applicable. Sales and use, value added and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future. Such tax assessments, penalties and interest or future requirements may adversely affect our financial results.

Our international operations subject us to potentially adverse tax consequences.

We generally conduct our international operations through wholly owned subsidiaries, branches and representative offices and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. We are in the process of organizing our corporate structure to more closely align with the international nature of our business activities. Our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. We believe that our financial statements reflect adequate reserves to cover such a contingency, but there can be no assurances in that regard.

We could be subject to additional tax liabilities.

We are subject to federal, state and local taxes in the United States and numerous foreign 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. We previously discovered that we have not complied with various tax rules and regulations in certain foreign jurisdictions. We are working to resolve these matters. 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, including those relating to income tax nexus, by our earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated 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 against us. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made.

Our financial results may be adversely affected by changes in accounting principles applicable to us.

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Generally accepted accounting principles in the United States (“U.S. GAAP”) are subject to interpretation by the Financial Accounting Standards Board (“FASB”), the SEC, and other various bodies formed to promulgate and interpret appropriate accounting principles. For example, in May 2014, the FASB issued accounting standards update No. 2014-09 (Topic 606), Revenue from Contracts with Customers, which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. We will be required to implement this new revenue standard, as amended by accounting standards update No. 2015-14, in the first quarter of fiscal 2019. While we are still evaluating the total impact of the new revenue standard, we believe the adoption of this new standard will have a material impact on our consolidated financial statements, including the way we account for arrangements involving a term license, deferred revenue and sales commissions. In addition, some deferred revenue recorded in accordance with the current revenue standard could be eliminated upon adoption of the new revenue standard. These or other changes in accounting principles could adversely affect our financial results. Any difficulties in implementing these pronouncements could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors’ confidence in us.

Our stock price has been volatile, may continue to be volatile and may decline regardless of our financial performance.

The trading prices of the securities of technology companies have been highly volatile. The market price of our common stock has fluctuated significantly and may continue to fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our financial results;
- the financial projections we provide to the public, any changes in these projections or our failure to meet or exceed these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- ratings changes by any securities analysts who follow our company;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- price and volume fluctuations in certain categories of companies or the overall stock market, including as a result of trends in the global economy;
- any major change in our board of directors or management;
- lawsuits threatened or filed against us; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, the stock markets, and in particular the market on which our common stock is listed, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the financial performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and adversely affect our business, results of operations, financial condition and cash flows.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

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

The market price of shares of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors, executive officers, employees and significant stockholders, a large number of shares of our common stock becoming available for sale, or the perception in the market that holders of a large number of shares intend to sell their shares. As of January 31, 2017, we had outstanding approximately 137.2 million shares of our common stock. We have also registered shares of common stock that we may issue under our employee equity incentive plans. These shares will be able to be sold freely in the public market upon issuance.

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

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of The NASDAQ Stock Market and other applicable securities rules and regulations. Compliance with these rules and regulations has increased our legal and financial compliance costs, made some activities more difficult, time-consuming or costly and increased and will continue to increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our costs and expenses.

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

As a result of disclosure of information as a public company, our business and financial condition have become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business operations and financial results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business operations and financial results. From time to time, public companies are subject to campaigns by investors seeking to increase short-term stockholder value through actions such as financial restructuring, increased debt, special dividends, stock repurchases or sales of assets or the entire company. If stockholders attempt to effect such changes or acquire control over us, responding to such actions would be costly, time-consuming and disruptive, which could adversely affect our results of operations, financial results and the value of our common stock. These factors could also make it more difficult for us to attract and retain qualified employees, executive officers and members of our board of directors.

We are obligated to develop and maintain proper and effective internal control over financial reporting. These internal controls may not be determined to be effective, which may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment includes disclosure of any

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material weaknesses identified by our management in our internal control over financial reporting. We are also required to have our independent registered public accounting firm issue an opinion on the effectiveness of our internal control over financial reporting on an annual basis. During the evaluation and testing process, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal controls are effective.

If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our common stock to decline, and we may be subject to investigation or sanctions by the SEC.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, price appreciation of our common stock, which may never occur, may be the only way our stockholders realize any future gains on their investments.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our certificate of incorporation and bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock with terms, rights and preferences determined by our board of directors;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the Chairman of our board of directors, or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
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require the approval of our board of directors or the holders of a supermajority of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

During fiscal year 2017, we relocated our corporate headquarters from 250 Brannan Street, San Francisco, California to 270 Brannan Street, San Francisco, California. Our corporate headquarters at 270 Brannan Street occupy approximately 182,000 square feet under a lease that expires in February 2024. Additionally, we entered into an office lease for approximately 235,000 square feet located at 3098 Olsen Drive, San Jose, California that expires in August 2027 for our business operations, sales, support and product development. We began occupying the premises at 3098 Olsen Drive in the fourth quarter of fiscal 2017. We lease smaller regional offices for our business operations, sales, support and some product development in various locations throughout the United States. Our foreign subsidiaries lease office space for their operations including local sales, support and some product development. While we believe our facilities are sufficient and suitable for the operations of our business today, we are in the process of adding new facilities and expanding our existing facilities as we add employees and expand into additional markets.

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Item 3. Legal Proceedings

The information set forth under Legal Proceedings in Note 3 contained in the “Notes to Consolidated Financial Statements” is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Price and Dividends

Our common stock, $0.001 par value, began trading on the NASDAQ Global Select Market on April 19, 2012, where its prices are quoted under the symbol “SPLK.” As of January 31, 2017, there were 18 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial holders represented by these record holders.
The following table sets forth the reported high and low sales prices of our common stock for the periods indicated, as regularly quoted on the NASDAQ Global Select Market:

	High	Low
Year Ended January 31, 2016:		
First Quarter	$74.88	$51.41
Second Quarter	$76.85	$64.70
Third Quarter	$71.75	$51.71
Fourth Quarter	$66.90	$43.80
	High	Low
Year Ended January 31, 2017:		
First Quarter	$53.98	$29.85
Second Quarter	$62.63	$45.07
Third Quarter	$65.75	$54.45
Fourth Quarter	$62.90	$50.64

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

Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” for information regarding securities authorized for issuance.

Stock Performance Graph

This chart compares the cumulative total return on our common stock with that of the NASDAQ Composite index and the NASDAQ Computer index. The chart assumes $100 was invested on April 19, 2012, the date our stock began trading, in our common stock, the NASDAQ Composite index and the NASDAQ Computer index. The peer group indices utilize the same methods of presentation and assumptions for the total return calculation as does Splunk and the NASDAQ Composite index. All companies in the peer group index are weighted in accordance with their market capitalizations.

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Company/Index	4/19/12	1/31/13	1/31/14	1/31/15	1/31/16	1/31/17
Splunk Inc.	$100.00	$92.90	$217.11	$145.57	$130.47	$163.08
NASDAQ Composite	$100.00	$104.47	$136.45	$154.12	$153.41	$186.69
NASDAQ Computer	$100.00	$95.02	$121.69	$143.97	$150.45	$186.04

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Item 6. Selected Financial Data

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Form 10-K. The consolidated statement of operations data for fiscal 2017, 2016, and 2015 and the selected consolidated balance sheet data as of January 31, 2017 and 2016 are derived from, and are qualified by reference to, the audited consolidated financial statements and are included in this Form 10-K. The consolidated statement of operations data for fiscal 2014, and 2013 and the consolidated balance sheet data as of January 31, 2015, 2014, and 2013 are derived from audited consolidated financial statements, which are not included in this Form 10-K.

	Fiscal Year Ended January 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share amounts)				
Consolidated Statement of Operations Data:					
Revenues					
License	$546,925	$405,399	$283,191	$199,024	$135,922
Maintenance and services	403,030	263,036	167,684	103,599	63,022
Total revenues	949,955	668,435	450,875	302,623	198,944
Cost of revenues (1)					
License	11,965	9,080	1,859	330	727
Maintenance and services	179,088	105,042	66,519	35,495	20,697
Total cost of revenues	191,053	114,122	68,378	35,825	21,424
Gross profit	758,902	554,313	382,497	266,798	177,520
Operating expenses (1)					
Research and development	295,850	215,309	150,790	75,895	41,853
Sales and marketing	653,524	505,348	344,471	215,335	125,098
General and administrative	153,359	121,579	103,046	53,875	32,602
Total operating expenses	1,102,733	842,236	598,307	345,105	199,553
Operating loss	(343,831)	(287,923)	(215,810)	(78,307)	(22,033)
Interest and other income (expense), net					
Interest income (expense), net	(2,829)	1,798	754	225	152
Other income (expense), net	(3,022)	(519)	216	(920)	—
Change in fair value of preferred stock warrants	—	—	—	—	(14,087)
Total interest and other income (expense), net	(5,851)	1,279	970	(695)	(13,935)
Loss before income taxes	(349,682)	(286,644)	(214,840)	(79,002)	(35,968)
Provision for income taxes (benefit)	5,507	(7,872)	2,276	6	713
Net loss	$(355,189)	$(278,772)	$(217,116)	$(79,008)	$(36,681)
Net loss per share:					
Basic and diluted	$(2.65)	$(2.20)	$(1.81)	$(0.75)	$(0.46)
Weighted-average shares outstanding:					
Basic and diluted	133,910	126,746	119,775	105,067	80,246

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(1) Amounts include stock-based compensation expense as follows:

	Fiscal Year Ended January 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Cost of revenues	$30,971	$26,057	$17,189	$5,283	$1,217
Research and development	129,388	89,197	60,777	20,829	6,170
Sales and marketing	161,164	130,054	90,064	30,012	8,093
General and administrative	56,518	46,949	46,149	13,244	4,000

	As of January 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$1,083,442	$1,009,039	$850,164	$897,453	$305,939
Working capital	693,000	719,503	653,185	784,966	259,789
Total assets	1,718,546	1,536,839	1,247,791	1,040,331	390,445
Deferred revenue, current and long-term	625,459	449,503	304,085	192,321	114,712
Total stockholders’ equity	805,161	859,414	813,321	784,908	237,544

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under “Risk Factors” included in Part I, Item 1A or in other parts of this report.

Overview

Splunk provides innovative software solutions that enable organizations to gain real-time operational intelligence by harnessing the value of their data. Our offerings enable users to collect, index, search, explore, monitor, correlate and analyze data regardless of format or source. Our offerings address large and diverse data sets commonly referred to as big data and are specifically tailored for machine data. Machine data is produced by nearly every software application and electronic device in an organization and contains a definitive, time-stamped record of various activities, such as transactions, customer and user activities, and security threats. Beyond an organization's traditional information technology (“IoT”) and security infrastructure, data from the Industrial Internet, including industrial control systems, sensors, SCADA systems, networks, manufacturing systems, smart meters and IoT which includes consumer -oriented systems, such as electronic wearables, mobile devices, automobiles and medical devices are also continuously generating machine data. Our offerings help organizations gain value from all of these different sources and forms of machine data.

We believe the market for products that provide operational intelligence presents a substantial opportunity as data grows in volume and diversity, creating new risks, opportunities and challenges for organizations. Since our inception, we have invested a substantial amount of resources developing our offerings to address this market, specifically with respect to machine data.

Our offerings are designed to deliver rapid return-on-investment for our customers. They generally do not require customization, long deployment cycles or extensive professional services commonly associated with traditional enterprise software applications. Prospective users can get started with our free online sandboxes that enable our customers to immediately try and experience Splunk offerings. Users that prefer to deploy the software on-premises can take advantage of our free 60-day trial of Splunk Enterprise, which converts into a limited free perpetual license of up to 500 megabytes of data per day. Paying users can sign up for Splunk Cloud and avoid the need to provision, deploy and manage internal infrastructure. Alternatively, they can simply download and install the software, typically in a matter of hours, to connect to their relevant

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machine data sources. Customers can also provision a compute instance on Amazon Web Services via a pre-built Amazon Machine Image, which delivers a pre-configured virtual machine instance with our Splunk Enterprise software. In fiscal 2017, we introduced free development-test licenses for certain commercial customers, allowing users to explore new data and use cases in a non-production environment without incurring additional fees. We also offer support, training and professional services to our customers to assist in the deployment of our software.

For Splunk Enterprise, we base our license fees on the estimated daily data indexing capacity our customers require. A substantial portion of our license revenues consist of revenues from perpetual licenses, whereby we generally recognize the license fee portion of these arrangements upfront. As a result, the timing of when we enter into large perpetual licenses may lead to fluctuations in our revenues and operating results because our expenses are largely fixed in the short-term. Additionally, we license our software under term licenses, which are generally recognized ratably over the contract term. From time to time, we also enter into transactions that are designed to enable broad adoption of our software within an enterprise, referred to as enterprise adoption agreements. These agreements often include provisions that require revenue deferral and recognition over time.

Splunk Cloud delivers the core capabilities of Splunk Enterprise as a scalable, reliable cloud service. Splunk Cloud customers pay an annual subscription fee based on the combination of the volume of data indexed per day and the length of the data retention period. Splunk Light provides log search and analysis that is designed, priced and packaged for small IT environments, where a single-server log analytics solution is sufficient, and accordingly the daily indexing volume is limited as compared to Splunk Enterprise. Splunk Enterprise Security addresses emerging security threats and SIEM use cases through monitoring, alerts and analytics. Splunk IT Service Intelligence monitors the health and key performance indicators of critical IT and business services. Splunk User Behavior Analytics detects cyber-attacks and insider threats using data science, machine learning and advanced correlation.

We intend to continue investing for long-term growth. We have invested and intend to continue to invest heavily in product development to deliver additional features and performance enhancements, deployment models and solutions that can address new end markets. For example, we released new versions of existing offerings such as Splunk Enterprise and introduced new offerings for the security and IT markets during fiscal 2017. In addition, we expect to continue to aggressively expand our sales and marketing organizations to market and sell our software both in the United States and internationally. We have utilized and expect to continue to utilize acquisitions to contribute to our long-term growth objectives. In fiscal 2016, we acquired Metafor Software, a privately-held British Columbia corporation, which developed technology that provides anomaly detection and behavioral analytics for IT operations and Caspida, a privately-held Delaware corporation, which developed technology that provides behavioral analytics to help detect, respond to and mitigate advanced security and insider security threats.

Our goal is to make our software the platform for delivering operational intelligence and real-time business insights from machine data. The key elements of our growth strategy are to:

- Extend our technological capabilities.

- Continue to expand our direct and indirect sales organization, including our channel relationships, to increase our sales capacity and enable greater market presence.

- Further penetrate our existing customer base and drive enterprise-wide adoption.

- Enhance our value proposition through a focus on solutions which address core and expanded use cases.

- Grow our user communities and partner ecosystem to increase awareness of our brand, target new use cases, drive operational leverage and deliver more targeted, higher value solutions.

- Continue to deliver a rich developer environment to enable rapid development of enterprise applications that leverage machine data and the Splunk platform.

We believe the factors that will influence our ability to achieve our goals include, among other things, our ability to deliver new offerings as well as additional product functionality; acquire new customers across geographies and industries; cultivate incremental sales from our existing customers by driving increased use of our software within organizations; provide additional solutions that leverage our core machine data platform to help organizations understand and realize the value of their machine data in specific end markets and use cases; add additional OEM and strategic relationships to enable new sales channels for our software as well as extend our integration with third party products; help software developers leverage the

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functionality of our machine data platform through SDKs and APIs; and successfully integrate acquired businesses and technologies.

For the fiscal years ended January 31, 2017, 2016 and 2015, our total revenues were $950.0 million, $668.4 million, and $450.9 million, respectively. For the fiscal year ended January 31, 2017, approximately 24% of our total revenues were derived from customers located outside the United States. Our customers and end-users represent the public sector and a wide variety of industries, including financial services, manufacturing, retail and technology, among others. As of January 31, 2017, we had over 13,000 customers, including more than 85 of the Fortune 100 companies.

For the fiscal years ended January 31, 2017, 2016 and 2015, our GAAP operating loss was $343.8 million, $287.9 million, and $215.8 million, respectively. Our non-GAAP operating income was $59.4 million, $25.4 million and $12.3 million for fiscal years ended January 31, 2017, 2016 and 2015, respectively.

For the fiscal years ended January 31, 2017, 2016 and 2015, our GAAP net loss was $355.2 million, $278.8 million, and $217.1 million, respectively. Our non-GAAP net income was $55.7 million, $23.6 million and $11.0 million for fiscal years ended January 31, 2017, 2016, and 2015, respectively.

Our quarterly results reflect seasonality in the sale of our offerings. Historically, a pattern of increased license sales in the fourth fiscal quarter as a result of industry buying patterns has positively impacted sales activity in that period, which can result in lower sequential revenues in the following first fiscal quarter. Our gross margins and operating losses have been affected by these historical trends because the majority of our expenses are relatively fixed in the short-term. The majority of our expenses are personnel-related and include salaries, stock-based compensation, benefits and incentive-based compensation plan expenses. As a result, we have not experienced significant seasonal fluctuations in the timing of expenses from period to 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 cost of revenues, non-GAAP gross margin, non-GAAP research and development expense, non-GAAP sales and marketing expense, non-GAAP general and administrative expense, non-GAAP operating income (loss), non-GAAP operating margin, non-GAAP net income (loss) and non-GAAP net income (loss) per share (collectively the “non-GAAP financial measures”). These non-GAAP financial measures exclude all or a combination of the following (as reflected in the following reconciliation tables): stock-based compensation expense, employer payroll tax expense related to employee stock plans, amortization of acquired intangible assets, acquisition-related costs, adjustments related to a financing lease obligation, the partial release of the valuation allowance due to acquisition and facility exit costs. The adjustments for the financing lease obligation are to reflect the expense we would have recorded if our build-to-suit lease arrangement had been deemed an operating lease instead of a financing lease and is calculated as the net of actual ground lease expense, depreciation and interest expense over estimated straight-line rent expense. In addition, non-GAAP financial measures include free cash flow, which represents cash from operations less purchases of property and equipment, and billings, which represents revenues plus the change in deferred revenue during the period. 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. 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 key metrics used by management in our financial and operational decision making. In addition, these non-GAAP financial measures facilitate comparisons to competitors’ operating results.

We exclude stock-based compensation expense because it is non-cash in nature and excluding this expense provides meaningful supplemental information regarding our operational performance and allows investors the ability to make more meaningful comparisons between our operating results and those of other companies. We exclude employer payroll tax expense related to employee stock plans in order for investors to see the full effect that excluding that stock-based compensation expense had on our operating results. These expenses are tied to the exercise or vesting of underlying equity awards and the price of our common stock at the time of vesting or exercise, which may vary from period to period independent of the operating performance of our business. We also exclude amortization of acquired intangible assets, acquisition-related costs, the partial release of the valuation allowance due to acquisition, facility exit costs, and make adjustments related to a financing lease obligation from our non-GAAP financial measures because these are considered by management to be outside of our core operating results. Accordingly, we believe that excluding these expenses provides investors and management with greater visibility to the underlying performance of our business operations, facilitates comparison of our results with other periods and

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may also facilitate comparison with the results of other companies in our industry. 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 that can be used for strategic opportunities, including investing in our business, making strategic acquisitions and strengthening our balance sheet. We consider billings to be a useful measure for management and investors because it provides visibility into our sales activity for a particular period, which is not necessarily reflected in our revenues given that we recognize term licenses and subscriptions for cloud services ratably.

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 our competitors 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 non-GAAP financial measures are meant to supplement and be viewed in conjunction with GAAP financial measures.

The following table reconciles our net cash provided by operating activities to free cash flow for the fiscal years ended January 31, 2017, 2016 and 2015 (in thousands):

	Fiscal Year Ended January 31,		
	2017	2016	2015
Net cash provided by operating activities	$201,834	$155,622	$103,980
Less purchases of property and equipment	(45,349)	(51,332)	(13,950)
Free cash flow (non-GAAP)	$156,485	$104,290	$90,030
Net cash used in investing activities	$(127,461)	$(153,490)	$(645,160)
Net cash provided by (used in) financing activities	$(77,862)	$35,485	$31,610

The following table reconciles our GAAP to Non-GAAP Financial Measures for the fiscal year ended January 31, 2017 (in thousands, except per share amounts).

	GAAP	Stock-based compensation	Employer payroll tax on employee stock plans	Amortization of acquired intangible assets	Adjustments related to financing lease obligation	Adjustments related to facility exits	Non-GAAP
Cost of revenues	$191,053	$(30,971)	$(801)	$(11,261)	$ 849	$—	$148,869
Gross margin	79.9%	3.2%	0.1%	1.2%	(0.1)%	—%	84.3%
Research and development	295,850	(129,388)	(2,651)	(233)	1,713	—	165,291
Sales and marketing	653,524	(161,164)	(3,394)	(432)	3,508	—	492,042
General and administrative	153,359	(56,518)	(1,827)	—	745	(11,364)	84,395
Operating income (loss)	(343,831)	378,041	8,673	11,926	(6,815)	11,364	59,358
Operating margin	(36.2)%	39.7%	0.9%	1.3%	(0.7)%	1.2%	6.2%
Net income (loss)	$(355,189)	$378,041	$8,673	$11,926	$ 890 [2]	$11,364	$55,705
Net income (loss) per share [1]	$(2.65)						$0.41

[1] GAAP net loss per share calculated based on 133,910 weighted-average shares of common stock. Non-GAAP net income per share calculated based on 137,409 diluted weighted-average shares of common stock, which includes 3,499 potentially dilutive shares related to employee stock awards. GAAP to Non-GAAP net income (loss) per share is not reconciled due to the difference in the number of shares used to calculate basic and diluted weighted-average

shares of common stock.
(2) Includes $7.7 million of interest expense related to the financing lease obligation.

The following table reconciles our GAAP to Non-GAAP Financial Measures for the fiscal year ended January 31, 2016 (in thousands, except per share amounts).

	GAAP	Stock-based compensation	Employer payroll tax on employee stock plans	Amortization of acquired intangible assets	Acquisition-related costs and income tax effects	Adjustments related to financing lease obligation	Non-GAAP
Cost of revenues	$114,122	$(26,057)	$(953)	$(8,271)	$ —	$ —	$78,841
Gross margin	82.9 %	3.9 %	0.1 %	1.3 %	— %	— %	88.2 %
Research and development	215,309	(89,197)	(2,837)	(296)	—	—	122,979
Sales and marketing	505,348	(130,054)	(3,442)	(623)	—	—	371,229
General and administrative	121,579	(46,949)	(1,736)	—	(1,993)	(888)	70,013
Operating income (loss)	(287,923)	292,257	8,968	9,190	1,993	888	25,373
Operating margin	(43.1)%	43.8 %	1.3 %	1.4 %	0.3 %	0.1 %	3.8 %
Net income (loss)	$(278,772)	$292,257	$8,968	$9,190	$ (8,931) [(2)]	$ 888	$23,600
Net income (loss) per share [(1)]	$(2.20)						$0.18

[(1)] GAAP net loss per share calculated based on 126,746 weighted-average shares of common stock. Non-GAAP net income per share calculated based on 131,753 diluted weighted-average shares of common stock, which includes 5,007 potentially dilutive shares related to employee stock awards. GAAP to Non-GAAP net income (loss) per share is not reconciled due to the difference in the number of shares used to calculate basic and diluted weighted-average shares of common stock.
[(2)] Includes $10.9 million related to the partial release of the valuation allowance due to acquisition.

The following table reconciles our GAAP to Non-GAAP Financial Measures for the fiscal year ended January 31, 2015 (in thousands, except per share amounts).

	GAAP	Stock-based compensation	Employer payroll tax on employee stock plans	Amortization of acquired intangible assets	Adjustments related to financing lease obligation	Non-GAAP
Cost of revenues	$68,378	$ (17,189)	$(639)	$ (3,004)	$ —	$47,546
Gross Margin	84.8 %	3.9 %	0.1 %	0.7 %	— %	89.5 %
Research and development	150,790	(60,777)	(3,219)	(776)	—	86,018
Sales and marketing	344,471	(90,064)	(2,850)	(597)	—	250,960
General and administrative	103,046	(46,149)	(2,160)	—	(666)	54,071
Operating income (loss)	(215,810)	214,179	8,868	4,377	666	12,280
Operating margin	(47.9)%	47.5 %	2.0 %	1.0 %	0.1 %	2.7 %
Net income (loss)	$(217,116)	$ 214,179	$8,868	$ 4,377	$ 666	$10,974
Net income (loss) per share [(1)]	$(1.81)					$0.09

[(1)] GAAP net loss per share calculated based on 119,775 weighted-average shares of common stock. Non-GAAP net income per share calculated based on 127,139 diluted weighted-average shares of common stock, which includes 7,364 potentially dilutive shares related to employee stock awards. GAAP to Non-GAAP net income (loss) per share is not reconciled due to the difference in the number of shares used to calculate basic and diluted weighted-average shares of common stock.

The following table reconciles our total revenues to billings for the fiscal year ended January 31, 2017 (in thousands, except per share amounts).

Total revenues	$949,955
Increase in deferred revenue	175,956
Billings (Non-GAAP)	$1,125,911

The following table reconciles our total Splunk Cloud revenues to Splunk Cloud billings for the fiscal year ended January 31, 2017 (in thousands, except per share amounts).

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Total Splunk Cloud revenues	$47,773
Increase in Splunk Cloud deferred revenue	47,745
Splunk Cloud billings (Non-GAAP)	$95,518

Components of Operating Results

Revenues

License revenues. License revenues reflect the revenues recognized from sales of licenses to new customers and additional licenses to existing customers. We are focused on acquiring new customers and increasing revenues from our existing customers as they realize the value of our software by indexing higher volumes of machine data and expanding the use of our software through additional use cases and broader deployment within their organizations. A majority of our license revenues consists of revenues from perpetual licenses, under which we generally recognize the license fee portion of the arrangement upfront, assuming all revenue recognition criteria are satisfied. Customers can also purchase term license agreements, under which we recognize the license fee ratably, on a straight-line basis, over the term of the license. Due to the differing revenue recognition policies, shifts in the mix between transactions that are recognized upfront and those that are recognized ratably from quarter to quarter could produce substantial variation in revenues recognized even if our sales remain consistent. In addition, seasonal trends that contribute to increased sales activity in the fourth fiscal quarter often result in lower sequential revenues in the first fiscal quarter, and we expect this trend to continue. Comparing our revenues on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance.

Maintenance and services revenues. Maintenance and services revenues consist of revenues from maintenance agreements and, to a lesser extent, professional services and training, as well as revenues from our cloud services. Typically, when purchasing a perpetual license, a customer also purchases one year of maintenance service for which we charge a percentage of the license fee. When a term license is purchased, maintenance service is typically bundled with the license for the term of the license period. Customers with maintenance agreements are entitled to receive support and unspecified upgrades and enhancements when and if they become available during the maintenance period. We recognize the revenues associated with maintenance agreements ratably, on a straight-line basis, over the associated maintenance period. In arrangements involving a term license, we recognize both the license and maintenance revenues over the contract period. We have a professional services organization focused on helping our customers deploy our software in highly complex operational environments and train their personnel. We recognize the revenues associated with these professional services on a time and materials basis as we deliver the services or provide the training. We expect maintenance and services revenues to become a larger percentage of our total revenues as our installed customer base grows. We generally recognize the revenues associated with our cloud services ratably, on a straight-line basis, over the associated subscription term.

Professional services and training revenues as a percentage of total revenues were 8% and 7% for the fiscal years ended January 31, 2017 and 2016, respectively. We have experienced continued growth in our professional services revenues primarily due to the deployment of our software with some customers that have large, highly complex IT environments.

Cost of Revenues

Cost of license revenues. Cost of license revenues includes all direct costs to deliver our products, including salaries, benefits, stock-based compensation and related expenses such as employer taxes, allocated overhead for facilities and IT and amortization of acquired intangible assets. We recognize these expenses as they are incurred.

Cost of maintenance and services revenues. Cost of maintenance and services revenues includes salaries, benefits, stock-based compensation and related expenses such as employer taxes for our maintenance and services organization, allocated overhead for depreciation of equipment, facilities and IT, amortization of acquired intangible assets and third-party hosting fees related to our cloud services. We recognize expenses related to our maintenance and services organization as they are incurred.

Operating Expenses

Our operating expenses are classified into three categories: research and development, sales and marketing and general and administrative. For each category, the largest component is personnel costs, which include salaries, employee benefit costs, bonuses, commissions as applicable, stock-based compensation and related expenses such as employer taxes. Operating expenses also include allocated overhead costs for depreciation of equipment, facilities and IT. Allocated costs for facilities include costs for compensation of our facilities personnel, leasehold improvements and rent. Our allocated costs for IT include costs for compensation of our IT personnel and costs associated with our IT infrastructure. Operating expenses are generally recognized as incurred.

Research and development. Research and development expenses primarily consist of personnel and facility-related costs attributable to our research and development personnel. We have devoted our product development efforts primarily to enhancing the functionality and expanding the capabilities of our software and services. We expect that our research and development expenses will continue to increase, in absolute dollars, as we increase our research and development headcount to further strengthen and enhance our software and services and invest in the development of our solutions and apps.

Sales and marketing. Sales and marketing expenses primarily consist of personnel and facility-related costs for our sales, marketing and business development personnel, commissions earned by our sales personnel and the cost of marketing and business development programs. We expect that sales and marketing expenses will continue to increase, in absolute dollars, as we continue to hire additional personnel and invest in marketing programs.

General and administrative. General and administrative expenses primarily consist of personnel and facility-related costs for our executive, finance, legal, human resources and administrative personnel; our legal, accounting and other professional services fees; and other corporate expenses. We anticipate continuing to incur additional expenses due to growing our operations, including higher legal, corporate insurance and accounting expenses.

Interest and other income (expense), net

Interest and other income (expense), net consists primarily of foreign exchange gains and losses, interest income on our investments and cash and cash equivalents balances and changes in the fair value of forward exchange contracts.

Provision for income taxes

The provision for income taxes consists of federal, state and foreign income taxes. We recognize deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted tax rates in effect for the year in which we expect the differences to reverse. We record a valuation allowance to reduce the deferred tax assets to the amount that we are more-likely-than-not to realize. Because of our history of U.S. net operating losses, we have established, in prior years, a full valuation allowance against potential future benefits for U.S. deferred tax assets including loss carry-forwards and research and development and other tax credits. We regularly assess the likelihood that our deferred income tax assets will be realized based on the realization guidance available. To the extent that we believe any amounts are not more-likely-than-not to be realized, we record a valuation allowance to reduce the deferred income tax assets. We regularly assess the need for the valuation allowance on our deferred tax assets, and to the extent that we determine that an adjustment is needed, such adjustment will be recorded in the period that the determination is made.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the United States. The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

We believe that the assumptions and estimates associated with revenue recognition, share-based compensation, income taxes and business combinations have the greatest potential impact on our consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. Accordingly, we believe these are the most critical to fully understand and evaluate our financial condition and results of operations. For further information on all of our significant accounting policies, see Note 1 of our accompanying Notes to Consolidated Financial Statements included in Part II, Item 8, “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

Results of Operations

The following tables set forth our results of operations for the periods presented and as a percentage of our total revenues for those periods. The period-to-period comparison of financial results is not necessarily indicative of financial results to be achieved in future periods.

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	Fiscal Year Ended January 31,					
	2017		2016		2015	
	(in thousands and as % of revenues)					
Consolidated Statement of Operations Data:						
Revenues						
License	$546,925	57.6 %	$405,399	60.6 %	$283,191	62.8 %
Maintenance and services	403,030	42.4	263,036	39.4	167,684	37.2
Total revenues	949,955	100.0	668,435	100.0	450,875	100.0
Cost of revenues						
License (1)	11,965	2.2	9,080	2.2	1,859	0.7
Maintenance and services (1)	179,088	44.4	105,042	39.9	66,519	39.7
Total cost of revenues	191,053	20.1	114,122	17.1	68,378	15.2
Gross profit	758,902	79.9	554,313	82.9	382,497	84.8
Operating expenses						
Research and development	295,850	31.1	215,309	32.2	150,790	33.4
Sales and marketing	653,524	68.8	505,348	75.6	344,471	76.4
General and administrative	153,359	16.1	121,579	18.2	103,046	22.9
Total operating expenses	1,102,733	116.1	842,236	126.0	598,307	132.7
Operating loss	(343,831)	(36.2)	(287,923)	(43.1)	(215,810)	(47.9)
Other income (expense), net						
Interest income (expense), net	(2,829)	(0.3)	1,798	0.3	754	0.3
Other income (expense), net	(3,022)	(0.3)	(519)	(0.1)	216	—
Total other income (expense), net	(5,851)	(0.6)	1,279	0.2	970	0.3
Loss before income taxes	(349,682)	(36.8)	(286,644)	(42.9)	(214,840)	(47.6)
Provision for income taxes (benefit)	5,507	0.6	(7,872)	(1.2)	2,276	0.6
Net loss	$(355,189)	(37.4)%	$(278,772)	(41.7)%	$(217,116)	(48.2)%

(1) Calculated as a percentage of the associated revenues.

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Fiscal 2017, 2016 and 2015
Revenues

	Fiscal Year Ended January 31,			2017 to 2016 % Change	2016 to 2015 % Change
	2017	2016	2015		
	(in thousands)				
Revenues					
License	$546,925	$405,399	$283,191	34.9 %	43.2 %
Maintenance and services	403,030	263,036	167,684	53.2 %	56.9 %
Total revenues	$949,955	$668,435	$450,875	42.1 %	48.3 %
Percentage of revenues					
License	57.6 %	60.6 %	62.8 %		
Maintenance and services	42.4	39.4	37.2		
Total	100.0 %	100.0 %	100.0 %		

Fiscal 2017 compared to fiscal 2016. The increase in license revenues of $141.5 million was primarily driven by increases in our total number of customers, sales to existing customers and an increase in the number of larger orders. For example, we had 1,942 and 1,447 orders greater than $100,000 for the fiscal years ended January 31, 2017 and 2016, respectively. Our total number of Splunk customers increased from approximately 11,000 at January 31, 2016 to over 13,000 at January 31, 2017. The increase in maintenance and services revenues of $140.0 million was due to increases in sales of our maintenance agreements resulting from the growth of our installed customer base, sales of our cloud services and sales of our professional services.

Fiscal 2016 compared to fiscal 2015. The increase in license revenues of $122.2 million was primarily driven by increases in our total number of customers, sales to existing customers and an increase in the number of larger orders. For example, we had 1,447 and 1,112 orders greater than $100,000 for the fiscal years ended January 31, 2016 and 2015, respectively. Our total number of Splunk customers increased from approximately 9,000 at January 31, 2015 to approximately 11,000 at January 31, 2016. The increase in maintenance and services revenues of $95.4 million was due to increases in sales of maintenance agreements resulting from the growth of our installed customer base as well as sales of our professional services.

Cost of Revenues and Gross Margin

	Fiscal Year Ended January 31,			2017 to 2016 % Change	2016 to 2015 % Change
	2017	2016	2015		
	(in thousands)				
Cost of revenues (1)					
License	$11,965	$9,080	$1,859	31.8 %	388.4 %
Maintenance and services	179,088	105,042	66,519	70.5 %	57.9 %
Total cost of revenues	$191,053	$114,122	$68,378	67.4 %	66.9 %
Gross margin					
License	97.8 %	97.8 %	99.3 %		
Maintenance and services	55.6 %	60.1 %	60.3 %		
Total gross margin	79.9 %	82.9 %	84.8 %		

(1) Includes stock-based compensation expense:

Cost of revenues	$30,971	$26,057	$17,189

Fiscal 2017 compared to fiscal 2016. Total cost of revenues increased $76.9 million primarily due to a $74.0 million increase in cost of maintenance and services revenues. The increase in cost of maintenance and services revenues was primarily related to an increase of $30.2 million related to third-party hosting fees to support our cloud services, an increase of $23.6 million in salaries and benefits expense, which includes a $4.9 million increase in stock-based compensation expense due to increased headcount and an increase of $14.5 million related to third-party consulting services. The $2.9 million increase in cost of license revenues was primarily due to an increase in amortization expense related to acquired intangible assets.

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Maintenance and services gross margin decreased primarily due to the growth of our cloud revenues during the year. Total gross margin decreased primarily due to maintenance and services revenues being a greater percentage of the overall revenue mix.

Fiscal 2016 compared to fiscal 2015. Total cost of revenues increased $45.7 million primarily due to a $38.5 million increase in cost of maintenance and services revenues. The increase in cost of maintenance and services revenues was primarily related to an increase of $21.5 million in salaries and benefits expense, which includes a $8.9 million increase in stock-based compensation expense due to increased headcount, an increase of $9.9 million related to third-party hosting fees to support our cloud services and an increase of $4.7 million related to third-party consulting services. The $7.2 million increase in cost of license revenues was primarily due to a $5.3 million increase in amortization expense related to acquired intangible assets. Total gross margin decreased slightly primarily due to amortization expense related to acquired intangible assets.

Operating Expenses

	Fiscal Year Ended January 31,			2017 to 2016 % Change	2016 to 2015 % Change
	2017	2016	2015		
	(in thousands)				
Operating expenses (1)					
Research and development	$295,850	$215,309	$150,790	37.4 %	42.8 %
Sales and marketing	653,524	505,348	344,471	29.3 %	46.7 %
General and administrative	153,359	121,579	103,046	26.1 %	18.0 %
Total operating expenses	$1,102,733	$842,236	$598,307	30.9 %	40.8 %
Percentage of revenues					
Research and development	31.1 %	32.2 %	33.4 %		
Sales and marketing	68.8	75.6	76.4		
General and administrative	16.2	18.2	22.9		
Total	116.1 %	126.0 %	132.7 %		

(1) Includes stock-based compensation expense:

Research and development	$129,388	$89,197	$60,777
Sales and marketing	161,164	130,054	90,064
General and administrative	56,518	46,949	46,149
Total stock-based compensation expense	$347,070	$266,200	$196,990

Research and development expense

Fiscal 2017 compared to fiscal 2016. Research and development expense increased $80.5 million primarily due to a $69.0 million increase in salaries and benefits, which includes a $40.2 million increase in stock-based compensation expense, as we increased headcount as part of our focus on further developing and enhancing our products and services. The increase in stock-based compensation expense is partly related to the accelerated vesting of certain restricted shares of common stock. Additionally, we had an increase of $7.9 million related to overhead costs including rent and utilities costs.

Fiscal 2016 compared to fiscal 2015. Research and development expense increased $64.5 million primarily due to a $56.2 million increase in salaries and benefits, which includes a $28.4 million increase in stock-based compensation expense, as we increased headcount as part of our focus on further developing and enhancing our products and services. We also had an increase of $7.4 million related to overhead costs including rent and utilities costs, as well as IT costs related to our operations.

Sales and marketing expense

Fiscal 2017 compared to fiscal 2016. Sales and marketing expense increased $148.2 million primarily due to a $116.6 million increase in salaries and benefits, which includes a $31.1 million increase in stock-based compensation expense, as we increased headcount to expand our field sales organization and experienced higher commission expense as a result of increased customer orders. We experienced an increase of $16.7 million in expenses due to increased facilities and overhead, an increase of $10.2 million related to third-party consulting services and an increase of $2.9 million in travel-related expenses due to increased travel from our growing field sales organization.

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Fiscal 2016 compared to fiscal 2015. Sales and marketing expense increased $160.9 million primarily due to a $116.9 million increase in salaries and benefits, which includes a $40.0 million increase in stock-based compensation expense, as we increased headcount to expand our field sales organization and experienced higher commission expense as a result of increased customer orders. We experienced an increase of $18.6 million in expenses due to increased facilities and overhead, as well as an increase of $10.6 million in marketing program fees, marketing events and advertising. Additionally, we had an increase of $6.4 million in travel-related expenses due to increased travel from our growing field sales organization and an increase of $5.3 million due to our sales kickoff and other sales related events.

General and administrative expense

Fiscal 2017 compared to fiscal 2016. General and administrative expense increased $31.8 million primarily due to a $15.4 million increase in salaries and benefits, which includes a $9.6 million increase in stock-based compensation expense. Additionally, we had an increase of $11.4 million in connection with a facility exit charge and the accelerated depreciation of property and equipment and an increase of $3.2 million related to third-party consulting services.

Fiscal 2016 compared to fiscal 2015. General and administrative expense increased $18.5 million primarily due to a $11.9 million net increase in salaries and benefits, which includes a $0.8 million net increase in stock-based compensation expense. The net increase in stock-based compensation expense reflects a gross increase of $13.9 million, offset by a decrease of $13.1 million as a result of the acceleration of stock-based compensation expense during the prior year's second fiscal quarter related to the return of two restricted stock unit grants from our then-serving Chief Executive Officer. Additionally, we experienced a $2.9 million increase in legal expenses.

Interest and Other Income (Expense), net

	Fiscal Year Ended January 31,			2017 to 2016 % Change	2016 to 2015 % Change
	2017	2016	2015		
	(in thousands)				
Interest and other income (expense), net					
Interest income (expense), net	$(2,829)	$1,798	$754	(257.3)%	138.5 %
Other income (expense), net	(3,022)	(519)	216	482.3 %	(340.3)%
Total interest and other income (expense), net	$(5,851)	$1,279	$970	(557.5)%	31.9 %

Fiscal 2017 compared to fiscal 2016. Interest and other income (expense), net reflects a net increase in expense primarily due to an increase in interest expense from our financing lease obligation and an increase in foreign exchange losses.

Fiscal 2016 compared to fiscal 2015. Interest and other income (expense), net reflects a net increase in income primarily due to an increase in interest income from our investments.

Provision for Income Taxes

	Fiscal Year Ended January 31,			2017 to 2016 % Change	2016 to 2015 % Change
	2017	2016	2015		
	(in thousands)				
Provision for income taxes (benefit)	$5,507	$(7,872)	$2,276	(170.0)%	(445.9)%

Fiscal 2017 compared to fiscal 2016. The increase in income tax expense was primarily due to the absence of a partial release of the valuation allowance from the acquisition of Caspida. Additionally, we experienced an increase in taxable income in our foreign operations.

Fiscal 2016 compared to fiscal 2015. The decrease in income tax expense was primarily due to a partial release of the deferred tax asset valuation allowance from the acquisition of Caspida, partially offset by an increase in taxable income in our foreign operations. The net deferred tax liability from the acquisition of Caspida provided an additional source of taxable income to support the realizability of the pre-existing deferred tax assets and as a result, we released a portion of the deferred tax asset valuation allowance.

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Quarterly Results of Operations

The following table sets forth our unaudited quarterly statements of operations data for the last eight fiscal quarters. The information for each of these quarters has been prepared on the same basis as the audited annual financial statements included elsewhere in this annual report and, in the opinion of management, includes all adjustments, which includes only normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This data should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this annual report. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Three Months Ended							
	Jan 31, 2017	Oct 31, 2016	July 31, 2016	Apr 30, 2016	Jan 31, 2016	Oct 31, 2015	July 31, 2015	Apr 30, 2015
	(in thousands, except per share amounts)							
Consolidated Statement of Operations Data:								
Revenues								
License	$190,513	$139,725	$115,695	$100,992	$141,403	$104,164	$87,960	$71,872
Maintenance and services	115,948	105,064	97,058	84,960	78,621	70,256	60,366	53,793
Total revenues	306,461	244,789	212,753	185,952	220,024	174,420	148,326	125,665
Cost of revenues								
License	3,252	2,883	2,868	2,962	2,970	3,136	1,813	1,161
Maintenance and services	55,011	45,791	41,748	36,538	32,436	27,455	23,227	21,924
Total cost of revenues (1)	58,263	48,674	44,616	39,500	35,406	30,591	25,040	23,085
Gross profit	248,198	196,115	168,137	146,452	184,618	143,829	123,286	102,580
Operating expenses								
Research and development (1)	75,596	85,659	67,224	67,371	66,117	56,186	48,308	44,698
Sales and marketing (1)	190,815	167,330	150,228	145,151	161,442	130,131	111,786	101,989
General and administrative (1)	52,895	34,079	34,312	32,073	36,090	29,857	28,760	26,872
Total operating expenses	319,306	287,068	251,764	244,595	263,649	216,174	188,854	173,559
Operating loss	(71,108)	(90,953)	(83,627)	(98,143)	(79,031)	(72,345)	(65,568)	(70,979)
Interest and other income (expense), net								
Interest income (expense), net	(806)	(823)	(797)	(403)	636	377	425	360
Other income (expense), net	(486)	(348)	(1,063)	(1,125)	(42)	(271)	(295)	89
Total interest and other income (expense), net	(1,292)	(1,171)	(1,860)	(1,528)	594	106	130	449
Loss before income taxes	(72,400)	(92,124)	(85,487)	(99,671)	(78,437)	(72,239)	(65,438)	(70,530)
Income tax provision (benefit)	1,805	1,367	1,110	1,225	886	735	(10,149)	656
Net loss	$(74,205)	$(93,491)	$(86,597)	$(100,896)	$(79,323)	$(72,974)	$(55,289)	$(71,186)
Net loss per share, basic and diluted:	$(0.54)	$(0.69)	$(0.65)	$(0.77)	$(0.61)	$(0.57)	$(0.44)	$(0.57)

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

	Three Months Ended							
	Jan 31, 2017	Oct 31, 2016	July 31, 2016	Apr 30, 2016	Jan 31, 2016	Oct 31, 2015	July 31, 2015	Apr 30, 2015
	(in thousands)							
Cost of revenues	$8,496	$7,610	$7,310	$7,555	$7,479	$6,384	$5,662	$6,532
Research and development	27,085	45,355	27,742	29,206	27,287	22,534	19,301	20,075
Sales and marketing	42,810	38,750	39,371	40,233	38,987	33,247	28,210	29,610
General and administrative	14,403	13,299	14,440	14,376	14,622	11,999	10,436	9,892

	Three Months Ended							
	Jan 31, 2017	Oct 31, 2016	July 31, 2016	Apr 30, 2016	Jan 31, 2016	Oct 31, 2015	July 31, 2015	Apr 30, 2015
	(as % of revenues)							
Consolidated Statement of Operations Data:								
Revenues								
License	62.2 %	57.1 %	54.4 %	54.3 %	64.3 %	59.7 %	59.3 %	57.2 %
Maintenance and services	37.8	42.9	45.6	45.7	35.7	40.3	40.7	42.8
Total revenues	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of revenues								
License (1)	1.7	2.1	2.5	2.9	2.1	3.0	2.1	1.6
Maintenance and services (1)	47.4	43.6	43.0	43.0	41.3	39.1	38.5	40.8
Total cost of revenues	19.0	19.9	21.0	21.2	16.1	17.5	16.9	18.4
Gross profit	81.0	80.1	79.0	78.8	83.9	82.5	83.1	81.6
Operating expenses								
Research and development	24.7	35.0	31.6	36.2	30.0	32.2	32.6	35.6
Sales and marketing	62.3	68.4	70.6	78.1	73.4	74.6	75.4	81.2
General and administrative	17.2	13.9	16.1	17.3	16.4	17.2	19.3	21.3
Total operating expenses	104.2	117.3	118.3	131.6	119.8	124.0	127.3	138.1
Operating loss	(23.2)	(37.2)	(39.3)	(52.8)	(35.9)	(41.5)	(44.2)	(56.5)
Interest and other income (expense), net								
Interest income (expense), net	(0.2)	(0.3)	(0.4)	(0.2)	0.3	0.2	0.3	0.3
Other income (expense), net	(0.2)	(0.1)	(0.5)	(0.6)	—	(0.1)	(0.2)	0.1
Total interest and other income (expense), net	(0.4)	(0.4)	(0.9)	(0.8)	0.3	0.1	0.1	0.4
Loss before income taxes	(23.6)	(37.6)	(40.2)	(53.6)	(35.6)	(41.4)	(44.1)	(56.1)
Income tax provision (benefit)	0.6	0.6	0.5	0.7	0.5	0.4	(6.8)	0.5
Net loss	(24.2)%	(38.2)%	(40.7)%	(54.3)%	(36.1)%	(41.8)%	(37.3)%	(56.6)%

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(1) This percentage is calculated as a percentage of the associated revenues.

Seasonality, Cyclicality and Quarterly Trends

Our quarterly results reflect seasonality in the sale of our offerings. Historically, a pattern of increased license sales in the fourth fiscal quarter as a result of industry buying patterns has positively impacted sales activity in that period, which can result in lower sequential revenue in the first fiscal quarter. We expect this seasonality to continue in fiscal 2018 and beyond. Our gross margins and operating losses have been affected by these historical trends because the majority of our expenses are relatively fixed in the short term. The timing of revenues in relation to our expenses, much of which does not vary directly with

revenues, has an impact on the cost of revenues, research and development expense, sales and marketing expense and general and administrative expense as a percentage of revenues in each fiscal quarter during the year. The majority of our expenses are personnel-related and include salaries, stock-based compensation, benefits and incentive-based compensation plan expenses. As a result, we have not experienced significant seasonal fluctuations in the timing of expenses from period to period. Although these seasonal factors are common in the technology industry, historical patterns should not be considered a reliable indicator of our future sales activity or performance.

As is typical in the software industry, we expect a significant portion of our product license orders to be received in the last month of each fiscal quarter. We typically ship products shortly after the receipt of an order. We may have backlog consisting of product license orders that have not shipped and maintenance, professional and training services that have not been billed and for which the services have not yet been performed. Historically, our backlog has varied from quarter to quarter and has been immaterial to our total revenues.

Liquidity and Capital Resources

	As of January 31,		
	2017	2016	2015
	(in thousands)		
Cash and cash equivalents	$421,346	$424,541	$387,315
Investments, current portion	662,096	584,498	462,849
Investments, non-current	5,000	1,500	165,082

	Fiscal Year Ended January 31,		
	2017	2016	2015
	(in thousands)		
Cash provided by operating activities	$201,834	$155,622	$103,980
Cash used in investing activities	(127,461)	(153,490)	(645,160)
Cash provided by (used in) financing activities	(77,862)	35,485	31,610

We fund our operations primarily through cash generated from operations. At January 31, 2017, our cash and cash equivalents of $421.3 million were held for working capital purposes, a majority of which were invested in money market funds. We intend to continue to focus our capital expenditures in fiscal 2018 to support the growth in our operations and our global facility expansions. We believe that our existing cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced software and services offerings, the continuing market acceptance of our offerings and our planned investments, particularly in our product development efforts or acquisitions of complementary businesses, applications or technologies.

Operating Activities

Operating activities consist of our net loss adjusted for certain non-cash items and changes in operating assets and liabilities during the year.

Net cash provided by operating activities was $201.8 million for the year ended January 31, 2017 compared to $155.6 million from the prior year. The increase in net cash provided by operating activities was primarily related to the growth of our business, as we experienced increased sales of our products and services and the related support agreements. The primary working capital sources of cash were an increase in deferred revenue and accrued expenses and other liabilities for fiscal 2017 compared to fiscal 2016. The primary working capital uses of cash were an increase in prepaid expenses and a decrease in accrued payroll and compensation for fiscal 2017 compared to fiscal 2016.

Net cash provided by operating activities was $155.6 million for the year ended January 31, 2016 compared to $104.0 million from the prior year. The increase in net cash provided by operating activities was primarily related to the growth of our business, as we experienced increased sales of our products and services and the related support agreements. The primary working capital sources of cash were an increase in deferred revenue and a decrease in prepaid expenses for fiscal 2016 compared to fiscal 2015. The primary working capital use of cash was a decrease in accrued expenses and other liabilities for fiscal 2016 compared to fiscal 2015.

Investing Activities

Net cash used in investing activities was $127.5 million for the year ended January 31, 2017 compared to $153.5 million from the prior year. The decrease in cash used in investing activities was primarily related to a decrease of $142.7 million in cash used for acquisitions and a decrease of $6.0 million in capital expenditures, partially offset by an increase of $120.6 million in the net purchases of investments.

Net cash used in investing activities was $153.5 million for the year ended January 31, 2016 compared to $645.2 million from the prior year. The decrease in cash used in investing activities was primarily related to a decrease of $670.7 million in the net purchases of investments, partially offset by an increase of $140.2 million in cash used for acquisitions and an increase of $37.4 million in capital expenditures.

Financing Activities

Net cash used in financing activities was $77.9 million for the year ended January 31, 2017 compared to net cash provided by financing activities of $35.5 million from the prior year. The increase in cash used in investing activities was primarily related to an increase of $113.7 million in taxes paid related to net share settlement of equity awards and a decrease of $7.5 million in proceeds from the exercise of stock options, partially offset by the increase of $8.1 million in proceeds from our employee stock purchase plan.

Net cash provided by financing activities was $35.5 million for the year ended January 31, 2016 compared to $31.6 million from the prior year. The increase in cash provided by investing activities was primarily related to an increase of $4.8 million in proceeds from our employee stock purchase plan.

Loan and Security Agreement

On May 9, 2013 we entered into a Loan Agreement with Silicon Valley Bank, which was most recently amended in May 2015. As amended, the agreement provides for a revolving line of credit facility, which expires May 9, 2017. Under the agreement, we are able to borrow up to $25 million. Interest on any drawdown under the revolving line of credit accrues either at the prime rate (3.75% in January 2017) or the LIBOR rate plus 2.75%. As of January 31, 2017, we had no balance outstanding under this agreement. The agreement includes restrictive covenants, in each case subject to certain exceptions, that limit our ability to: sell or otherwise dispose of our business or property; change our business, liquidate or dissolve or undergo a change in control; enter into mergers, consolidations and acquisitions; incur indebtedness; create liens; pay dividends or make distributions; make investments; enter into material transactions with affiliates; pay any subordinated debt or amend certain terms thereof; or become an investment company.

In addition, the agreement contains customary financial covenants and other affirmative and negative covenants. We were in compliance with all covenants as of January 31, 2017.

Contractual Payment Obligations

Operating Lease Commitments

We lease our office spaces under non-cancelable leases. Rent expense for our operating leases was $28.1 million, $11.9 million and $9.8 million during fiscal 2017, 2016 and 2015, respectively.

On August 24, 2015, we entered into an office lease for approximately 235,000 square feet located at 3098 Olsen Drive, San Jose, California for a term of 129 months. Rent expense for this lease commenced in the third quarter of fiscal 2017. Our total obligation for the base rent is approximately $120.5 million.

The following summarizes our operating lease commitments as of January 31, 2017 (in thousands):

	Payments Due by Period*				
	Total	Less Than 1 year	1-3 years	3-5 years	More Than 5 years
Operating lease commitments *	$177,160	$ 20,399	$44,582	$36,745	$ 75,434

* We entered into sublease agreements for portions of our office space and the future rental income of $1.0 million from these agreements has been included as an offset to our future minimum rental payments.

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Financing Lease Obligation

On April 29, 2014, we entered into an office lease (the “Lease”) for approximately 182,000 square feet located at 270 Brannan Street, San Francisco, California (the “Premises”). The Premises is allocated between the "Initial Premises" and "Additional Premises," which are each approximately 91,000 square feet of rentable space. The term of the Additional Premises begins one year after the Initial Premises and each have a term of 84 months. Our total obligation for the base rent is approximately $92.0 million. On May 13, 2014, we entered into an irrevocable, standby letter of credit with Silicon Valley Bank for $6.0 million to serve as a security deposit for the Lease.

As a result of our involvement during the construction period, whereby we had certain indemnification obligations related to the construction, we were considered for accounting purposes only, the owner of the construction project under build-to-suit lease accounting. We have recorded project construction costs incurred by the landlord as an asset and a corresponding long term liability in “Property and equipment, net” and “Other liabilities, non-current,” respectively, on our consolidated balance sheets. We moved into the Premises in February 2016. We have determined that the lease does not meet the criteria for “sale-leaseback” treatment, due to our continuing involvement in the project resulting from our standby letter of credit. Accordingly, the Lease will continue to be accounted for as a financing obligation.

As of January 31, 2017, future payments on the financing lease obligation are as follows (in thousands):

Fiscal Period:	
Fiscal 2018	$11,683
Fiscal 2019	12,510
Fiscal 2020	12,886
Fiscal 2021	13,272
Fiscal 2022	13,670
Thereafter	21,977
Total future minimum lease payments	$85,998

Facility Exit Costs

In fiscal 2017, we relocated certain corporate offices in the San Francisco Bay Area and as a result, some of our leased office spaces are no longer in use. Accordingly, we calculated and recorded a liability at the "cease-use" date related to those operating leases based on the difference between the present value of the estimated future sublease rental income and the present value of our remaining lease obligations, adjusted for the effects of any prepaid or deferred items. We recorded a facility exit charge of approximately $8.6 million to "General and administrative" expenses in the consolidated statements of operations associated with the recognition of the liability. The short-term portion of the liability is recorded in "Accrued expenses and other liabilities" and the long-term portion of the liability is recorded in "Other liabilities, non-current," on the consolidated balance sheets. In addition, we also recognized $2.7 million of expense related to the acceleration of depreciation on certain property and equipment related to these facility exits.

Off-Balance Sheet Arrangements

During fiscal 2017, 2016 and 2015, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Indemnification Arrangements

During the ordinary course of business, we may indemnify, hold harmless and agree to reimburse for losses suffered or incurred, our customers, vendors and their affiliates for certain intellectual property infringement and other claims by third parties with respect to our offerings, in connection with our commercial end-user license arrangements or related to general business dealings with those parties.

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.

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To date, there have not been any costs incurred in connection with such indemnification obligations; therefore, there is no accrual of such amounts at January 31, 2017. We are unable to estimate the maximum potential impact of these indemnifications on our future results of operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

We had cash and cash equivalents of $421.3 million as of January 31, 2017. We hold our cash and cash equivalents for working capital purposes. Our cash and cash equivalents are held in cash deposits and money market funds. The primary objective of our investment activities is to preserve principal while maximizing yields without significantly increasing risk. This objective is accomplished by making diversified investments, consisting only of investment grade securities. During the fiscal years ended January 31, 2017 and 2016, the effect of a hypothetical 10% increase or decrease in overall interest rates would not have had a material impact on our interest income.

Any draws under our revolving credit facility bear interest at a variable rate tied to the prime rate or the LIBOR rate. As of January 31, 2017, we had no balance outstanding under this agreement.

Foreign Currency Exchange Risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates. All of our revenues are generated in U.S. dollars. Our expenses are generally denominated in the currencies in which our operations are located, which is primarily in the United States and to a lesser extent in Europe and Asia. 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 exchange rates. We seek to minimize the impact of certain foreign currency fluctuations by hedging certain balance sheet exposures with foreign currency forward contracts. Any gain or loss from settling these contracts is offset by the loss or gain derived from the underlying balance sheet exposures. We do not enter into any hedging contracts for trading or speculative purposes. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our historical consolidated financial statements. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

Inflation

We do not believe that inflation had a material effect on our business, financial condition or results of operations in the last three fiscal years. 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.

Recent Accounting Pronouncements

For recent accounting pronouncements, see Note 1 of our accompanying Notes to Consolidated Financial Statements included in Part II, Item 8, “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K.

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Item 8. Financial Statements and Supplementary Data

Splunk Inc.

Index to Consolidated Financial Statements

The supplementary financial information required by this Item 8, is included in Part II, Item 7 under the caption "Quarterly Results of Operations," which is incorporated herein by reference.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Splunk Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive loss, of stockholders’ equity and of cash flows present fairly, in all material respects, the financial position of Splunk Inc. and its subsidiaries at January 31, 2017 and January 31, 2016, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
San Jose, California
March 29, 2017

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Splunk Inc.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	January 31, 2017	January 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$421,346	$424,541
Investments, current portion	662,096	584,498
Accounts receivable, net	238,281	181,665
Prepaid expenses and other current assets	38,650	26,565
Total current assets	1,360,373	1,217,269
Investments, non-current	5,000	1,500
Property and equipment, net	166,395	134,995
Intangible assets, net	37,713	49,482
Goodwill	124,642	123,318
Other assets	24,423	10,275
Total assets	$1,718,546	$1,536,839
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$7,503	$4,868
Accrued payroll and compensation	100,092	95,898
Accrued expenses and other liabilities	81,071	49,879
Deferred revenue, current portion	478,707	347,121
Total current liabilities	667,373	497,766
Deferred revenue, non-current	146,752	102,382
Other liabilities, non-current	99,260	77,277
Total non-current liabilities	246,012	179,659
Total liabilities	913,385	677,425
Commitments and contingencies (Note 3)		
Stockholders' equity		
Preferred stock: $0.001 par value; 20,000,000 shares authorized; no shares issued or outstanding at January 31, 2017 and January 31, 2016	—	—
Common stock: $0.001 par value; 1,000,000,000 shares authorized; 137,169,481 shares issued and outstanding at January 31, 2017, and 131,543,467 shares issued and outstanding at January 31, 2016	137	132
Accumulated other comprehensive loss	(3,013)	(3,770)
Additional paid-in capital	1,828,821	1,528,647
Accumulated deficit	(1,020,784)	(665,595)
Total stockholders' equity	805,161	859,414
Total liabilities and stockholders' equity	$1,718,546	$1,536,839

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

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Splunk Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Fiscal Year Ended January 31,		
	2017	2016	2015
Revenues			
License	$546,925	$405,399	$283,191
Maintenance and services	403,030	263,036	167,684
Total revenues	949,955	668,435	450,875
Cost of revenues (1)			
License	11,965	9,080	1,859
Maintenance and services	179,088	105,042	66,519
Total cost of revenues	191,053	114,122	68,378
Gross profit	758,902	554,313	382,497
Operating expenses (1)			
Research and development	295,850	215,309	150,790
Sales and marketing	653,524	505,348	344,471
General and administrative	153,359	121,579	103,046
Total operating expenses	1,102,733	842,236	598,307
Operating loss	(343,831)	(287,923)	(215,810)
Interest and other income (expense), net			
Interest income (expense), net	(2,829)	1,798	754
Other income (expense), net	(3,022)	(519)	216
Total interest and other income (expense), net	(5,851)	1,279	970
Loss before income taxes	(349,682)	(286,644)	(214,840)
Provision for income taxes (benefit)	5,507	(7,872)	2,276
Net loss	$(355,189)	$(278,772)	$(217,116)
Basic and diluted net loss per share	$(2.65)	$(2.20)	$(1.81)
Weighted-average shares used in computing basic and diluted net loss per share	133,910	126,746	119,775

(1) Amounts include stock-based compensation expense, as follows:

Cost of revenues	$30,971	$26,057	$17,189
Research and development	129,388	89,197	60,777
Sales and marketing	161,164	130,054	90,064
General and administrative	56,518	46,949	46,149

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

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Splunk Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Fiscal Year Ended January 31,		
	2017	2016	2015
Net loss	$(355,189)	$(278,772)	$(217,116)
Other comprehensive income (loss):			
Net unrealized gain (loss) on investments (net of tax)	(174)	(66)	2
Foreign currency translation adjustments	931	(2,867)	(897)
Total other comprehensive income (loss)	757	(2,933)	(895)
Comprehensive loss	$(354,432)	$(281,705)	$(218,011)

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

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Splunk Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders’ Equity
Balances at January 31, 2014	116,099,516	$ 116	$954,441	$ 58	$(169,707)	$ 784,908
Stock-based compensation	—	—	214,179	—	—	214,179
Issuance of common stock upon exercise of options	4,213,746	4	16,788	—	—	16,792
Vesting of early exercised options	—	—	112	—	—	112
Vesting of restricted stock units	2,862,027	3	(3)	—	—	—
Issuance of common stock upon ESPP purchase	363,203	—	14,494	—	—	14,494
Excess tax benefits from employee stock plans	—	—	847	—	—	847
Unrealized gain from investments	—	—	—	2	—	2
Net change in cumulative translation adjustments	—	—	—	(897)	—	(897)
Net loss	—	—	—	—	(217,116)	(217,116)
Balances at January 31, 2015	123,538,492	123	1,200,858	(837)	(386,823)	813,321
Stock-based compensation	—	—	292,257	—	—	292,257
Issuance of common stock upon exercise of options	2,755,556	3	15,266	—	—	15,269
Vesting of early exercised options	—	—	55	—	—	55
Vesting of restricted stock units	4,136,073	5	(5)	—	—	—
Issuance of common stock upon ESPP purchase	441,564	—	19,342	—	—	19,342
Issuance of restricted stock awards	671,782	1	—	—	—	1
Excess tax benefits from employee stock plans	—	—	874	—	—	874
Unrealized loss from investments	—	—	—	(66)	—	(66)
Net change in cumulative translation adjustments	—	—	—	(2,867)	—	(2,867)
Net loss	—	—	—	—	(278,772)	(278,772)
Balances at January 31, 2016	131,543,467	132	1,528,647	(3,770)	(665,595)	859,414
Stock-based compensation	—	—	378,041	—	—	378,041
Issuance of common stock upon exercise of options	1,642,599	2	7,746	—	—	7,748
Vesting of restricted stock units	3,571,873	3	—	—	—	3
Taxes paid related to net share settlement of equity awards	—	—	(113,707)	—	—	(113,707)
Issuance of common stock upon ESPP purchase	597,545	—	27,412	—	—	27,412
Forfeited restricted stock awards	(186,003)	—	—	—	—	—
	—	—	682	—	—	682

Excess tax benefits from employee stock plans						
Unrealized loss from investments	—	—	—	(174)	—	(174)
Net change in cumulative translation adjustments	—	—	—	931	—	931
Net loss	—	—	—	—	(355,189)	(355,189)
Balances at January 31, 2017	137,169,481	$ 137	$1,828,821	$ (3,013)	$(1,020,784)	$ 805,161

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

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Splunk Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Fiscal Year Ended January 31,		
	2017	2016	2015
Cash flows from operating activities			
Net loss	$(355,189)	$(278,772)	$(217,116)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	32,113	19,491	12,494
Amortization of investment premiums	840	1,332	775
Stock-based compensation expense	378,041	292,257	214,179
Deferred income taxes	(326)	(11,140)	(327)
Excess tax benefits from employee stock plans	(682)	(874)	(847)
Facility exit charge	8,625	—	—
Accelerated depreciation of property and equipment	2,739	—	—
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable, net	(56,616)	(53,252)	(45,065)
Prepaid expenses, other current and non-current assets	(25,726)	4,675	(11,284)
Accounts payable	2,720	965	1,766
Accrued payroll and compensation	4,194	30,026	21,344
Accrued expenses and other liabilities	35,145	5,496	16,297
Deferred revenue	175,956	145,418	111,764
Net cash provided by operating activities	201,834	155,622	103,980
Cash flows from investing activities			
Purchases of investments	(683,787)	(480,610)	(820,710)
Maturities of investments	605,175	522,645	192,000
Acquisitions, net of cash acquired	—	(142,693)	(2,500)
Purchases of property and equipment	(45,349)	(51,332)	(13,950)
Other investment activities	(3,500)	(1,500)	—
Net cash used in investing activities	(127,461)	(153,490)	(645,160)
Cash flows from financing activities			
Proceeds from exercise of stock options	7,751	15,269	16,792
Excess tax benefits from employee stock plans	682	874	847
Proceeds from employee stock purchase plan	27,412	19,342	14,494
Taxes paid related to net share settlement of equity awards	(113,707)	—	—
Payment related to financing lease obligation	—	—	(523)
Net cash provided by (used in) financing activities	(77,862)	35,485	31,610
Effect of exchange rate changes on cash and cash equivalents	294	(391)	(568)
Net increase (decrease) in cash and cash equivalents	(3,195)	37,226	(510,138)
Cash and cash equivalents			
Beginning of period	424,541	387,315	897,453
End of period	$421,346	$424,541	$387,315
Supplemental disclosures			
Cash paid for income taxes	$3,021	$1,408	$1,080
Cash paid for interest expense related to financing lease obligation	4,132	—	—
Non-cash investing and financing activities			