Mimecast Ltd
Form 10-Q
November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

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

For the transition period from __________________ to __________________

Commission File Number: 001-37637

MIMECAST LIMITED

(Exact Name of Registrant as Specified in its Charter)

Bailiwick of Jersey (State or other jurisdiction of incorporation or organization)	Not applicable (I.R.S. Employer Identification No.)
CityPoint, One Ropemaker Street, Moorgate	EC2Y 9AW

London EC2Y 9AW

United Kingdom
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (781) 996-5340

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Small reporting company
	Emerging growth Company

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

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

As of October 31, 2018, the registrant had 60,063,419 shares of ordinary shares, $0.012 par value per share, outstanding.

Table of Contents

		Page
PART I.	FINANCIAL INFORMATION	1
Item 1.	Financial Statements (Unaudited)	1
	Condensed Consolidated Balance Sheets as of September 30, 2018 and March 31, 2018	1
	Condensed Consolidated Statements of Operations for the Three and Six Months Ended September 30, 2018 and 2017	2
	Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended September 30, 2018 and 2017	3
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended September 30, 2018 and 2017	4
	Notes to Unaudited Condensed Consolidated Financial Statements	5
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	39
Item 4.	Controls and Procedures	41
PART II.	OTHER INFORMATION	42
Item 1.	Legal Proceedings	42
Item 1A.	Risk Factors	42
Item 6.	Exhibits	58
Signatures		63

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

MIMECAST LIMITED

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

(unaudited)

	As of September 30, 2018	As of March 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 118,881	$ 78,339
Short-term investments	25,491	58,871
Accounts receivable, net	59,966	65,392
Deferred contract costs, net	6,265	—
Prepaid expenses and other current assets	12,282	15,302
Total current assets	222,885	217,904
Property and equipment, net	131,608	123,822
Intangible assets, net	29,521	9,819
Goodwill	103,062	5,631
Deferred contract costs, net of current portion	21,319	—
Other assets	2,393	1,222
Total assets	$ 510,788	$ 358,398
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	$ 7,236	$ 6,052
Accrued expenses and other current liabilities	37,553	33,878
Deferred revenue	124,894	123,057
Current portion of capital lease obligations	1,164	1,125
Current portion of long-term debt	2,814	—
Total current liabilities	173,661	164,112
Deferred revenue, net of current portion	11,722	18,045
Long-term capital lease obligations	1,892	2,390
Long-term debt	95,154	—
Construction financing lease obligations	76,269	67,205
Other non-current liabilities	7,342	4,954
Total liabilities	366,040	256,706

Commitments and contingencies (Note 15)		
Shareholders' equity		
Ordinary shares, $0.012 par value, 300,000,000 shares authorized; 60,042,667 and 58,949,644 shares issued and outstanding as of September 30, 2018 and March 31, 2018, respectively	721	707
Additional paid-in capital	233,302	212,839
Accumulated deficit	(82,160)	(106,507)
Accumulated other comprehensive loss	(7,115)	(5,347)
Total shareholders' equity	144,748	101,692
Total liabilities and shareholders' equity	$ 510,788	$ 358,398

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

1

MIMECAST LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Revenue	$82,169	$63,066	$160,573	$121,224
Cost of revenue	21,938	16,543	42,914	31,795
Gross profit	60,231	46,523	117,659	89,429
Operating expenses				
Research and development	14,157	8,262	27,257	16,183
Sales and marketing	34,705	30,155	68,908	57,714
General and administrative	12,448	8,614	24,662	17,151
Restructuring	(170)	—	(170)	—
Total operating expenses	61,140	47,031	120,657	91,048
Loss from operations	(909)	(508)	(2,998)	(1,619)
Other income (expense)				
Interest income	543	314	987	553
Interest expense	(1,568)	(69)	(2,095)	(100)
Foreign exchange expense and other, net	498	(655)	57	(1,195)
Total other income (expense), net	(527)	(410)	(1,051)	(742)
Loss before income taxes	(1,436)	(918)	(4,049)	(2,361)
Provision for income taxes	622	421	1,480	878
Net loss	$(2,058)	$(1,339)	$(5,529)	$(3,239)
Net loss per ordinary share				
Basic and diluted	$(0.03)	$(0.02)	$(0.09)	$(0.06)
Weighted-average number of ordinary shares outstanding:				
Basic and diluted	59,800	57,027	59,489	56,662

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

MIMECAST LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Net loss	$(2,058)	$(1,339)	$(5,529)	$(3,239)
Other comprehensive income (loss):				
Net unrealized gains (losses) on investments, net of tax	32	9	96	(57)
Change in foreign currency translation adjustment	305	(596)	(1,862)	(364)
Reclassification of cumulative translation adjustment to net loss upon liquidation of subsidiaries, net of tax	—	—	—	188
Total other comprehensive income (loss)	337	(587)	(1,766)	(233)
Comprehensive loss	$(1,721)	$(1,926)	$(7,295)	$(3,472)

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

MIMECAST LIMITED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six months ended September 30, 2018	2017
Operating activities		
Net loss	$(5,529)	$(3,239)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	14,280	7,859
Share-based compensation expense	11,290	5,556
Amortization of deferred contract costs	2,879	—
Amortization of debt issuance costs	123	5
Other non-cash items	(372)	159
Unrealized currency (gain) loss on foreign denominated transactions	(499)	798
Changes in assets and liabilities:		
Accounts receivable	2,457	(319)
Prepaid expenses and other current assets	3,282	(1,774)
Deferred contract costs	(7,771)	—
Other assets	(1,208)	33
Accounts payable	2,971	1,493
Deferred revenue	6,646	7,445
Accrued expenses and other liabilities	554	956
Net cash provided by operating activities	29,103	18,972
Investing activities		
Purchases of investments	(6,984)	(24,521)
Maturities of investments	40,500	38,500
Purchases of property, equipment and capitalized software	(15,843)	(13,403)
Payments for acquisitions, net of cash acquired	(108,913)	—
Net cash (used in) provided by investing activities	(91,240)	576
Financing activities		
Proceeds from issuance of ordinary shares	9,211	6,436
Payments on debt	(625)	(1,078)
Payments on capital lease obligations	(442)	(189)
Payments on construction financing lease obligations	(840)	—
Proceeds from issuance of debt, net of issuance costs	97,748	—
Net cash provided by financing activities	105,052	5,169
Effect of foreign exchange rates on cash	(2,373)	892
Net increase in cash and cash equivalents	40,542	25,609
Cash and cash equivalents at beginning of period	78,339	51,319
Cash and cash equivalents at end of period	$118,881	$76,928

Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$1,354	$81
Cash paid during the period for income taxes	$1,034	$1,440
Supplemental disclosure of non-cash investing and financing activities		
Unpaid purchases of property, equipment and capitalized software	$4,157	$4,592
Property and equipment acquired under capital lease	$—	$3,834
Construction costs capitalized under financing lease obligations	$10,296	$26,110

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

MIMECAST LIMITED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share data, unless otherwise noted)

(unaudited)

1. Organization and Basis of Presentation

Mimecast Limited (Mimecast Jersey) is a public limited company organized under the laws of the Bailiwick of Jersey on July 28, 2015. On November 4, 2015, Mimecast Jersey changed its corporate structure whereby it became the holding company of Mimecast Limited (Mimecast UK), a private limited company incorporated in 2003 under the laws of England and Wales, and its wholly-owned subsidiaries by way of a share-for-share exchange in which the shareholders of Mimecast UK exchanged their shares in Mimecast UK for an identical number of shares of the same class in Mimecast Jersey. Upon the exchange, the historical consolidated financial statements of Mimecast UK became the historical consolidated financial statements of Mimecast Jersey.

Mimecast Jersey and its subsidiaries (together the Group, the Company, Mimecast or we) is headquartered in London, England. The principal activity of the Group is the provision of email management services. Mimecast delivers a software-as-a-service (SaaS) enterprise email management service for archiving, continuity, and security, web security and awareness training. By unifying disparate and fragmented email environments into one holistic solution from the cloud, Mimecast minimizes risk and reduces cost and complexity while providing total end-to-end control of email. Mimecast’s proprietary software platform provides a single system to address key email management issues. Mimecast operates principally in Europe, North America, Africa, and Australia.

The Company is subject to a number of risks and uncertainties common to companies in similar industries and stages of development including, but not limited to, rapid technological changes, competition from substitute products and services from larger companies, customer concentration, management of international activities, protection of proprietary rights, patent litigation, and dependence on key individuals.

Basis of Presentation

The accompanying interim condensed consolidated financial statements are unaudited. These financial statements and notes should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2018 and related notes, together with management’s discussion and analysis of financial condition and results of operations, contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on May 29, 2018.

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) have been condensed or omitted. In the opinion of management, the unaudited condensed consolidated financial statements and notes have been prepared on the same basis as the audited consolidated financial statements for the year ended March 31, 2018 contained in the Company’s Annual Report on Form 10-K and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company’s financial position as of September 30, 2018, and for the three and six months ended September 30, 2018 and 2017. These interim periods are not necessarily indicative of the results to be expected for any other interim period or the full year.

The Company reclassified $0.1 million of provision for doubtful accounts to accounts receivable within its condensed consolidated statements of cash flows for the six months ended September 30, 2017 in this quarterly report on Form 10-Q to conform to current period presentation. This had no impact on the Company's previously reported results of operations or its balance sheets.

The accompanying condensed consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the condensed consolidated financial statements. As of September 30, 2018, the Company's significant accounting policies and estimates, which are detailed in the Company's Annual Report on Form 10-K, have not changed, except as discussed below.

Revenue Recognition

Adoption of ASC 606

Effective April 1, 2018, the Company adopted the requirements of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers: Topic 606 (ASU 2014-09 or ASC 606) under the modified retrospective method of transition, which was applied to all customer contracts that were not completed on the effective date of ASC 606. The Company implemented internal controls and key system functionality to enable the preparation of financial information on adoption. The adoption of ASC 606 resulted in changes to the Company's accounting policies for revenue recognition previously recognized under ASC 605, Revenue Recognition (Legacy GAAP), as detailed below.

Revenue Recognition Policy

Under ASC 606 the Company recognizes revenue upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. To achieve the core principle of ASC 606, the Company performs the following steps:

1) Identify the contract(s) with a customer;
2) Identify the performance obligations in the contract;
3) Determine the transaction price;
4) Allocate the transaction price to the performance obligations in the contract; and
5) Recognize revenue when (or as) we satisfy a performance obligation.

The Company derives its revenue from two sources: (1) subscription revenues, which are comprised of subscription fees from customers accessing the Company’s cloud services and from customers purchasing additional support beyond the standard support that is included in the basic subscription fees; and (2) related professional services and other revenue, which consists primarily of certain performance obligations related to set-up, ingestion, consulting and training fees.

In the three and six months ended September 30, 2018 and 2017, subscription revenue made up the substantial majority of the Company’s revenue and professional services and other revenue made up less than 5% of the Company’s revenue.

The Company’s subscription arrangements provide customers the right to access the Company’s hosted software applications. Customers do not have the right to take possession of the Company’s software during the hosting arrangement.

The Company sells its products and services directly through the Company’s sales force and also indirectly through third-party resellers. In accordance with the provisions of ASC 606, the Company has considered certain factors in determining whether the end-user or the third-party reseller is the customer in arrangements involving resellers. The Company concluded that in the majority of transactions with resellers, the reseller is the customer. In these arrangements, the Company considered that it is the reseller, and not the Company, that has the relationship with the end-user. Specifically, the reseller has the ability to set pricing with the end-user and the credit risk with the end-user is borne by the reseller. Further, the reseller is not obligated to report its transaction price with the end-user to the Company, and in the majority of transactions, the Company is unable to determine the amount paid by the end-user customer to the reseller in these transactions. As a result of such considerations, revenue for these transactions is presented in the accompanying condensed consolidated statements of operations based upon the amount billed to the reseller. For transactions where we have determined that the end-user is the ultimate customer, revenue is presented in the accompanying condensed consolidated statements of operations based on the transaction price with the end-user.

The Company recognizes subscription and support revenue ratably over the term of the contract, typically one year in duration, beginning on the date the customer is provided access to the Company’s service. For performance obligations related to set-up and ingestion, including implementation assistance and data migration services, respectively, the Company recognizes revenue using output measures of performance that reflect the transfer of promised services to the customer consistent with progress to completion. The Company recognizes revenue on training, consulting, and other professional services contracts using output measures of performance as services are completed. Training, consulting, and other professional services are considered separate performance obligations.

Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. The Company primarily bills and collects payments from customers for its services in advance on a monthly and annual basis.

In some instances, the Company receives non-refundable upfront payments for activities that do not constitute a promise to transfer a service and therefore are considered administrative tasks, not separate performance obligations. The upfront payments are evaluated to determine whether a material right to a discount upon renewal of the subscription exists. When the Company concludes a material right does not exist, the Company recognizes revenue related to the upfront payment over the initial contract term. When the Company concludes a material right does exist, the Company recognizes revenue related to the upfront payment, under the look-through method, over the estimated customer benefit period, which has been determined to be six years.

All of the Company’s performance obligations, and associated revenue, are generally transferred to customers over time, with the exception of training, consulting and other professional services, which are generally transferred to the customer at a point in time.

Revenue is presented net of any taxes collected from customers.

Some of the Company's contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determines the standalone selling prices based on the Company's overall pricing objectives, taking into consideration market conditions and other factors, including the value of the Company's contracts, the products sold, customer demographics, the Company's sales channel, and the number and size of users within the Company's contracts.

Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription and other services described above and is recognized as the revenue recognition criteria are met. Deferred revenue that is expected to be recognized during the succeeding twelve-month period is recorded as current deferred revenue and the remaining portion is recorded as non-current in the accompanying condensed consolidated balance sheets.

Deferred Cost Policy

As part of the Company's adoption of ASC 606, the Company capitalizes incremental costs of obtaining revenue contracts, which primarily consist of commissions paid to its sales representatives. The Company amortizes these commissions over six years on a systematic basis, consistent with the pattern of transfer of the goods or services to which the asset relates. Six years represents the estimated benefit period of the customer relationship taking into account factors such as peer estimates of technology lives and customer lives as well as the Company's own historical data. No commissions are paid related to contract renewals. The current and noncurrent portions of deferred commissions are included in deferred contract costs, net, and deferred contract costs, net of current portion, respectively, in the accompanying condensed consolidated balance sheets. Amortization of capitalized costs to obtain revenue contracts is included in sales and marketing expense in the accompanying condensed consolidated statements of operations.

Impact of Adoption of ASC 606

The adoption of ASC 606 resulted in a decrease to deferred revenue of $6.0 million and an increase of $23.8 million in deferred contract costs as of April 1, 2018. The Company recorded the deferred tax impact associated with the cumulative-effect adjustment of adopting ASC 606 to accumulated deficit with an equal and offsetting adjustment to the Company's valuation allowance. The decrease to deferred revenue upon adoption was primarily due to a change in the accounting treatment for certain upfront fees that were accounted for as a single unit of account under Legacy GAAP and are accounted for as separate performance obligations under ASC 606. The increase in deferred contract costs was the result of the capitalization of certain commissions that were determined to be incremental costs of obtaining a contract. Under Legacy GAAP, the Company expensed all commission costs as incurred.

As a result of the adoption of ASC 606, the Company's accumulated deficit decreased by $29.9 million as of April 1, 2018, which was the net cumulative impact associated with the capitalization of sales commissions and the adjustment to deferred revenue.

The cumulative effect of the changes made to the Company's April 1, 2018 balance sheet for the adoption of ASC 606 were as follows:

	Balance as of March 31, 2018	Adjustments Due to Adoption of ASC 606	Balance as of April 1, 2018
Assets			
Deferred contract costs, net	$—	$ 5,494	$5,494
Deferred contract costs, net of current portion	—	18,339	18,339
Liabilities			
Deferred revenue	123,057	(517)	122,540
Deferred revenue, net of current portion	18,045	(5,526)	12,519
Shareholders' equity			
Accumulated deficit	(106,507)	29,876	(76,631)

7

In accordance with the requirements of ASC 606, the disclosure for the quantitative effect and the significant changes between the reported results under ASC 606 and those that would have been reported under Legacy GAAP on our unaudited condensed consolidated income statement and balance sheet was as follows:

	Three months ended September 30, 2018		
	As Reported - ASC 606	Amounts without Adoption of ASC 606	Effect of Change Increase/(Decrease)
Income Statement			
Revenues	$82,169	$81,447	$ 722
Operating expenses			
Sales and marketing	(34,705)	(37,330)	(2,625)
Net loss	$(2,058)	$(5,405)	$ 3,347

	Six months ended September 30, 2018		
	As Reported - ASC 606	Amounts without Adoption of ASC 606	Effect of Change Increase/(Decrease)
Income Statement			
Revenues	$160,573	$159,555	$ 1,018
Operating expenses			
Sales and marketing	(68,908)	(73,797)	(4,889)
Net loss	$(5,529)	$(11,436)	$ 5,907

	As of September 30, 2018		
	As Reported - ASC 606	Balances without Adoption of ASC 606	Effect of Change Increase/(Decrease)
Balance Sheet			
Assets			
Deferred contract costs, net	$6,265	$—	$ 6,265
Deferred contract costs, net of current portion	21,319	—	21,319
Liabilities			
Deferred revenue	124,894	124,758	136
Deferred revenue, net of current portion	11,722	18,688	(6,966)
Shareholders' equity			

Accumulated deficit	(82,160)	(117,943)	35,783

Revenue recognized during the three and six months ended September 30, 2018 from amounts included in deferred revenue at the beginning of the period was approximately $53.4 million and $84.5 million, respectively. Revenue recognized during the three and six months ended September 30, 2018 from performance obligations satisfied or partially satisfied in previous periods was not material.

The adoption of ASC 606 had no impact to net operating cash flows.

Contracted revenue as of September 30, 2018 that has not yet been recognized ("contracted not recognized") was $74.0 million, which includes deferred revenue and non-cancellable amounts that will be invoiced and recognized as revenue in future periods and excludes contracts with an original expected length of one year or less. The Company expects 51% of contracted and not recognized revenue to be recognized over the next twelve months, 45% in years two and three, with the remaining balance recognized thereafter.

2. Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

3. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period.

Significant estimates relied upon in preparing these condensed consolidated financial statements include revenue recognition, variable consideration, valuation at fair value of assets acquired or sold, including intangibles, goodwill, tangible assets, and liabilities assumed, amortization periods, expected future cash flows used to evaluate the recoverability of long-lived assets, contingent liabilities, construction financing lease obligations, restructuring liabilities, expensing and capitalization of research and development costs for internal-use software, the determination of the fair value of share-based awards issued, the average period of benefit associated with costs capitalized to obtain revenue contracts and the recoverability of the Company's net deferred tax assets and related valuation allowance.

Although the Company regularly assesses these estimates, actual results could differ materially from these estimates. The Company bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances. Actual results may differ from management's estimates if these results differ from historical experience, or other assumptions do not turn out to be substantially accurate, even if such assumptions are reasonable when made. Changes in estimates are recorded in the period in which they become known.

4. Subsequent Events Considerations

The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence for certain estimates or to identify matters that require additional disclosure. The Company has evaluated all subsequent events and determined that there are no material recognized or unrecognized subsequent events requiring disclosure.

5. Concentration of Credit Risk and Off-Balance Sheet Risk

The Company has no off-balance sheet risk, such as foreign exchange contracts, option contracts, or other foreign hedging arrangements. Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, investments and accounts receivable. The Company maintains its cash, cash equivalents and investments with major financial institutions of high-credit quality. Although the Company deposits its cash with multiple financial institutions, its deposits, at times, may exceed federally insured limits.

Credit risk with respect to accounts receivable is dispersed due to our large number of customers. The Company's accounts receivable are derived from revenue earned from customers primarily located in the United States, the United Kingdom and South Africa. The Company generally does not require its customers to provide collateral or other security to support accounts receivable. Credit losses historically have not been significant and the Company generally has not experienced any material losses related to receivables from individual customers, or groups of customers. Due to these factors, no additional credit risk beyond amounts provided for collection losses is believed by management to be probable in the Company's accounts receivable. As of September 30, 2018 and March 31, 2018, no individual customer represented more than 10% of the Company's accounts receivable. During the three and six months ended September 30, 2018 and 2017, no individual customer represented more than 10% of the Company's revenue.

As of September 30, 2018, the Company's investments consisted primarily of investment-grade fixed income corporate debt securities with maturities ranging from less than one month to five months and non-U.S. government securities with maturities in approximately one month. We diversify our investment portfolio by investing in multiple types of investment-grade securities and attempt to mitigate a risk of loss by using a third-party investment manager.

6. Cash, Cash Equivalents and Investments

The Company considers all highly liquid instruments purchased with an original maturity date of 90 days or less from the date of purchase to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks, amounts held in interest-bearing money market funds and investments with maturities of 90 days or less from the date of

purchase. Cash equivalents are carried at cost, which approximates their fair market value. Investments not classified as cash equivalents are presented as either short-term or long-term investments based on both their stated maturities as well as the time period the Company intends to hold such securities. The Company determines the appropriate classification of investments at the time of purchase and reevaluates such designation at each balance sheet date. The Company adjusts the cost of investments for amortization of premiums and accretion of discounts to maturity. The Company includes such amortization and accretion in interest income.

The Company has classified all of its investments as of September 30, 2018, as available-for-sale pursuant to Accounting Standard Codification (ASC) 320, Investments – Debt and Equity Securities. The Company records available-for-sale securities at fair value, with unrealized gains and losses included in accumulated other comprehensive loss in shareholders' equity. The Company includes interest and dividends on securities classified as available-for-sale in interest income. Realized gains and losses are recorded in the condensed consolidated statements of operations and comprehensive loss based on the specific-identification method. There were no realized gains or losses on investments for the three and six months ended September 30, 2018 and 2017.

The Company reviews investments for other-than-temporary impairment whenever the fair value of an investment is less than its amortized cost and evidence indicates that an investment's carrying amount is not recoverable within a reasonable period of time. Other-than-temporary impairments of investments are recognized in the condensed consolidated statements of operations if the Company has experienced a credit loss, has the intent to sell the investment, or if it is more likely than not that the Company will be required to sell the investment before recovery of the amortized cost basis. Evidence considered in this assessment includes reasons for the impairment, compliance with the Company's investment policy, the severity and the duration of the impairment and changes in value subsequent to the end of the period. As of September 30, 2018, the aggregate fair value of investments held by the Company in an unrealized loss position for less than twelve months was $13.5 million. As of September 30, 2018, the Company determined that no other-than-temporary impairments were required to be recognized in the condensed consolidated statements of operations.

The following is a summary of cash, cash equivalents and investments as of September 30, 2018 and March 31, 2018:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2018:				
Cash and cash equivalents due in 90 days or less	$ 118,881	$ —	$ —	$ 118,881
Investments:				
Non-U.S. government securities due in one year or less	2,996	15	—	3,011
Corporate securities due in one year or less	22,488	18	(26)	22,480
Total investments	25,484	33	(26)	25,491
Total cash, cash equivalents and investments	$ 144,365	$ 33	$ (26)	$ 144,372

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2018:				
Cash and cash equivalents due in 90 days or less	$ 78,339	$ —	$ —	$ 78,339
Investments:				
U.S. treasury securities due in one year or less	2,995	—	(5)	2,990
Non-U.S. government securities due in one year or less	5,996	1	(1)	5,996
Corporate securities due in one year or less	49,969	8	(92)	49,885
Total investments	58,960	9	(98)	58,871
Total cash, cash equivalents and investments	$ 137,299	$ 9	$ (98)	$ 137,210

7. Disclosure of Fair Value of Financial Instruments

The Company's financial instruments include cash, cash equivalents, accounts receivable, investments, accounts payable, accrued expenses and borrowings under the Company's long-term debt arrangements. The carrying amount of the Company's long-term debt arrangements approximates its fair values due to the interest rates the Company believes it could obtain for borrowings with similar terms. The Company's investments are classified as available-for-sale and reported at fair value in accordance with the market approach utilizing quoted prices that were directly or indirectly observable. The carrying amount of the remainder of the Company's financial instruments approximated their fair values as of September 30, 2018 and March 31, 2018, due to the short-term nature of those instruments.

The Company has evaluated the estimated fair value of financial instruments using available market information. The use of different market assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts.

Fair values determined using "Level 1 inputs" utilize unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. Fair values determined using "Level 2 Inputs" utilize quoted prices that are directly or indirectly observable. Fair values determined using "Level 3 inputs" utilize unobservable inputs for determining fair values of assets or liabilities that reflect an entity's own assumptions in pricing assets or liabilities. As of September 30, 2018 and March 31, 2018, the Company did not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

The Company measures eligible assets and liabilities at fair value, with changes in value recognized in earnings. Fair value treatment may be elected either upon initial recognition of an eligible asset or liability or, for an existing asset or liability, if an event triggers a new basis of accounting. The Company did not elect to remeasure any of its existing financial assets or liabilities, and did not elect the fair value option for any financial assets and liabilities transacted in the three and six months ended September 30, 2018 and 2017.

The following table summarizes financial assets measured and recorded at fair value on a recurring basis in the accompanying condensed consolidated balance sheets as of September 30, 2018 and March 31, 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	September 30, 2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1 Inputs)	Significant Other Observable Inputs (Level 2 Inputs)	Total
Assets:			
Money market funds	$7,785	$ —	$7,785
Non-U.S. government securities	—	3,011	3,011
Corporate securities	—	22,480	22,480
Total assets	$7,785	$ 25,491	$33,276

	March 31, 2018		
	Quoted Prices in Active Markets for Identical Assets (Level 1 Inputs)	Significant Other Observable Inputs (Level 2 Inputs)	Total
Assets:			
Money market funds	$10,143	$ —	$10,143
U.S. treasury securities	—	2,990	2,990
Non-U.S. government securities	—	5,996	5,996
Corporate securities	—	49,885	49,885
Total assets	$10,143	$ 58,871	$69,014

8. Internal-use Software Costs

Software Development Costs

Costs incurred to develop software applications used in the Company's SaaS platform consist of certain direct costs of materials and services incurred in developing or obtaining internal-use computer software, and payroll and payroll-related costs for employees who are directly associated with, and who devote time to, the project. These costs generally consist of internal labor during configuration, coding, and testing activities. Research and development costs incurred during the preliminary project stage or costs incurred for data conversion activities, training, maintenance and general and administrative or overhead costs are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the application is substantially complete and ready for its intended use. Qualified costs incurred during the operating stage of the Company's software applications relating to upgrades and enhancements are capitalized to the extent it is probable that they will result in added functionality, while costs incurred for maintenance of, and minor upgrades and enhancements to, internal-use software are expensed as incurred. During the three and six months ended September 30, 2018 and 2017, the Company believes the substantial majority of its development efforts were either in the preliminary project stage of development or in the operation stage (post-implementation), and accordingly, no costs have been capitalized during these periods. These costs are included in the accompanying condensed consolidated statements of operations as research and development expense.

Cloud-computing Arrangements

The Company evaluates its accounting for fees paid in cloud computing arrangements (CCA) including determining whether the CCA includes a license to internal-use software. If the CCA includes a software license, the Company accounts for the software license as an intangible asset. Acquired software licenses are recognized and measured at cost, which includes the present value of the license obligation if the license is to be paid for over time. If the CCA does not include a software license, the Company accounts for the arrangement as a service contract (hosting arrangement) and hosting costs are generally expensed as incurred.

Upon adoption of ASU 2018-15, the Company evaluates upfront costs including implementation, set-up or other costs (collectively, implementation costs) for hosting arrangements under the internal-use software framework. Costs related to preliminary project activities and post implementation activities are expensed as incurred, whereas costs incurred in the development stage are generally capitalized. Capitalized implementation costs are amortized on a straight-line basis over the expected term of the hosting arrangement, which includes consideration of the noncancellable contractual term and reasonably certain renewals. During the three and six months ended September 30, 2018, the Company capitalized $0.9 million of implementation costs related to hosting arrangements that were incurred during the application development stage. These capitalized implementation costs will be amortized over the expected term of the arrangement determined to be four years through sales and marketing expense within the condensed consolidated statements of operations.

9. Net Loss Per Share

The Company calculates basic and diluted net loss per ordinary share by dividing net loss by the weighted-average number of ordinary shares outstanding during the period. The Company has excluded other potentially dilutive shares, which include outstanding options to purchase ordinary shares and unvested restricted share units, from the weighted-average number of ordinary shares outstanding as their inclusion in the computation for all periods would be anti-dilutive due to net losses incurred.

The following potentially dilutive ordinary share equivalents have been excluded from the calculation of diluted weighted-average shares outstanding as their effect would have been anti-dilutive for the periods presented (in thousands):

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Share options outstanding	7,164	7,425	7,164	7,425
Unvested restricted share units	419	44	419	44
ESPP shares	64	70	64	70

10. Share-Based Compensation

As of September 30, 2018, the Company has four share-based compensation plans and an employee share purchase plan. Prior to the Company’s initial public offering (IPO) in November 2015, the Company granted share-based awards under three share option plans, which were the Mimecast Limited 2007 Key Employee Share Option Plan (the 2007 Plan), the Mimecast Limited 2010 EMI Share Option Scheme (the 2010 Plan), and the Mimecast Limited Approved Share Option Plan (the Approved Plan) (the 2007 Plan, the 2010 Plan and the Approved Plan, collectively, the Historical Plans). Upon the closing of the IPO, the Mimecast Limited 2015 Share Option and Incentive Plan (the 2015 Plan) and the 2015 Employee Share Purchase Plan (the ESPP) became effective.

Share Options

The fair value of each share option issued under the 2015 Plan was estimated using the Black-Scholes option-pricing model that used the following weighted-average assumptions:

	Six months ended September 30,

	2018		2017	
Expected term (in years)	6.1		6.1	
Risk-free interest rate	2.7	%	2.1	%
Expected volatility	41.4	%	40.1	%
Expected dividend yield	—	%	—	%
Estimated grant date fair value per ordinary share	$36.75		$25.23	

The weighted-average per share fair value of options granted to employees during the six months ended September 30, 2018 and 2017 was $16.28 and $10.58, respectively. As of September 30, 2018, the number of options and awards available for future grant under the 2015 Plan was 6,387,854.

Share option activity under the 2015 Plan and the Historical Plans for the six months ended September 30, 2018 was as follows:

	Number of Awards	Weighted Average Exercise Price (2)		Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) (1)
Outstanding as of March 31, 2018	6,229,860	$	13.78	7.40	$ 134,859
Options granted	2,142,948	$	36.75		
Options exercised	(1,011,211)	$	7.69		
Options forfeited and cancelled	(197,757)	$	21.49		
Outstanding as of September 30, 2018	7,163,840	$	21.29	7.89	$ 147,726
Exercisable as of September 30, 2018	2,176,150	$	10.30	6.05	$ 68,721

(1) The aggregate intrinsic value for share options outstanding and exercisable as of September 30, 2018 was calculated based on the positive difference, if any, between the closing price of the Company's ordinary shares on the NASDAQ Global Select Market on September 30, 2018, and the exercise price of the underlying options.

(2) Certain of the Company's option grants have an exercise price denominated in British pounds. The weighted-average exercise price at the end of each reporting period was translated into U.S. dollars using the exchange rate at the end of the period. The weighted-average exercise price for the options granted, exercised, forfeited and expired was translated into U.S. dollars using the exchange rate at the applicable date of grant, exercise, forfeiture or expiration, as appropriate.

The total intrinsic value of options exercised was $34.8 million for the six months ended September 30, 2018. Total cash proceeds from option exercises was $7.8 million for the six months ended September 30, 2018.

As of September 30, 2018, there was approximately $51.8 million of unrecognized share-based compensation related to unvested share options, which is expected to be recognized over a weighted-average period of 3.05 years.

ESPP

Initially, a total of 1.1 million shares of the Company's ordinary shares were reserved for future issuance under the ESPP. This number is subject to change in the event of a share split, share dividend or other change in capitalization. The ESPP may be terminated or amended by the board of directors at any time.

The ESPP permits eligible employees to purchase shares by authorizing payroll deductions from 1% to 10% of his or her eligible compensation during each six month offering period, which starts on the first business day in January and July each year. Unless an employee has previously withdrawn from the offering, his or her accumulated payroll deductions will be used to purchase shares on the last day of the offering period at a price equal to 85% of the fair market value of the shares on the first business day or last business day of the offering period, whichever is lower. In the three and six months ended September 30, 2018, the Company recognized $0.3 million and $0.5 million of share-based compensation expense under the ESPP.

As of September 30, 2018, there were 1.0 million shares of the Company's ordinary shares available for future issuance under the ESPP.

Restricted Share Units (RSUs)

The Company grants RSUs to its Non-Employee Directors and its employees. Non-Employee Directors receive an initial RSU grant upon joining the BOD that vests over three years and an annual grant each year thereafter that vests fully on the one-year anniversary of the grant date. RSUs granted to Company employees vest in four equal annual installments.

RSU activity under the 2015 Plan for the six months ended September 30, 2018 was as follows:

	Number of Shares	Weighted Average Grant Date Fair Value	Intrinsic Value (1) (2)
Unvested restricted share units as of March 31, 2018	32,763	$ 23.06	$1,161
Restricted share units granted	413,722	$ 37.30	15,433
Restricted share units vested	(18,102)	$ 22.55	698
Restricted share units canceled	(9,582)	$ 34.82	386
Unvested restricted share units as of September 30, 2018	418,801	$ 36.88	$15,447

(1) The intrinsic value of unvested shares as of September 30, 2018 was calculated based on the closing price of the Company's ordinary shares on the NASDAQ Global Select Market on September 30, 2018, multiplied by the number of unvested RSUs.

(2) The intrinsic value of RSUs granted, vested and canceled is calculated based on the closing price of the Company's ordinary shares at the respective transaction dates multiplied by the number of RSUs.

As of September 30, 2018, there was approximately $13.8 million of unrecognized share-based compensation expense related to unvested RSUs, which is expected to be recognized over a weighted-average period of 3.38 years.

Share-based compensation expense recognized under the 2015 Plan, Historical Plans and ESPP in the accompanying condensed consolidated statements of operations was as follows:

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Cost of revenue	$420	$236	$824	$442
Research and development	1,571	601	2,901	1,283
Sales and marketing	1,965	1,122	3,796	2,070
General and administrative	2,153	951	3,769	1,761
Total share-based compensation expense	$6,109	$2,910	$11,290	$5,556

In certain situations, the board of directors has approved modifications to employee share option agreements, including acceleration of vesting or the removal of exercise restrictions for share options for which the service-based vesting has been satisfied which resulted in additional share-based compensation expense. The total modification expense included in the table above for the three months ended September 30, 2018 and 2017 was $0.4 million and $0.1 million, respectively. The total modification expense included in the table above for the six months ended September 30, 2018 and 2017 was $0.6 million and $0.4 million, respectively. As of September 30, 2018, the Company had unrecognized compensation of $2.5 million related to modified share-based awards that will be recognized over a remaining requisite service period of 0.5 years.

11. Comprehensive Loss

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions, other events, and circumstances from non-owner sources. Comprehensive loss consists of net loss and other comprehensive income (loss), which includes certain changes in equity that are excluded from net loss. Specifically, cumulative foreign currency translation adjustments and unrealized gains and losses on investments are included in accumulated other comprehensive loss. As of September 30, 2018 and March 31, 2018, accumulated other comprehensive loss is presented separately on the condensed consolidated balance sheets and consists of cumulative foreign currency translation adjustments and unrealized gains and losses on investments.

12. Acquisitions

Solebit LABS Ltd.

On July 31, 2018, the Company entered into a share purchase agreement (the Purchase Agreement) pursuant to which it acquired Solebit LABS Ltd. (Solebit), a company organized under the laws of the State of Israel, that provides security software. Solebit's technology enhances security for the Company's customers and adds to its ability to detect and prevent cyber-attacks, zero day threats and malware across email and the web in real time. This acquisition further enhances the Company's cyber resilience platform architecture.

Prior to the closing of the acquisition, the Company held an ownership interest in Solebit of approximately 1.5%. Upon completion of the acquisition, the Company recognized a gain of $0.3 million recorded in foreign exchange expense and other, net within the condensed consolidated statement of operations for the remeasurement of its previously held ownership interest to fair value, which was $0.8 million.

The total preliminary purchase price of $96.5 million included cash payments of approximately $96.1 million, inclusive of $8.8 million in purchase price held in escrow. The escrow is being held in respect of claims for indemnification for one year from the purchase date. The preliminary amounts due from sellers of $0.5 million includes working capital adjustments and certain preliminary one-year indemnification period purchase price adjustments identified by the Company. The preliminary purchase price, cash payments and purchase price allocation are subject to finalization of amounts due from the seller for the one-year indemnification period adjustments and potential working capital adjustments. The Company expects to finalize the purchase price within the required one-year measurement period.

The acquisition of Solebit has been accounted for as a business combination and, in accordance with ASC 805, Business Combinations, the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date. The following table summarizes the preliminary purchase price allocation recorded in the quarter ended September 30, 2018 (in thousands):

Preliminary purchase consideration:	
Total cash paid, net of acquired cash	$85,733
Cash and cash equivalents acquired	10,410
Preliminary amounts due from sellers	(492)
Fair value of previously held asset	828
Total preliminary purchase price consideration	$96,479
Fair value of assets acquired and liabilities assumed:	
Cash and cash equivalents	$10,410
Prepaid expenses and other current assets	75
Intangible assets	16,964
Goodwill	74,395
Total assets acquired	101,844
Accounts payable	(18)
Accrued expenses and other current liabilities	(2,335)
Deferred revenue	(663)
Other non-current liabilities	(2,349)
Total fair value of assets acquired and liabilities assumed	$96,479

In the three and six months ended September 30, 2018, acquisition-related expenses were $0.6 million and $1.0 million, respectively. Acquisition-related expenses have been included primarily in general and administrative expenses in the condensed consolidated statements of operations. The operating results of Solebit are included in the condensed consolidated statements of operations beginning on the acquisition date.

The significant intangible assets identified in the preliminary purchase price allocation discussed above include developed technology and customer relationships, which are amortized over their respective useful lives on a straight-line basis when the pattern in which their economic benefits will be consumed cannot be reliably determined. To value the developed technology asset, the Company utilized the income approach, specifically a discounted cash-flow method known as the multi-period excess earnings method. Customer relationships represent the underlying relationships with certain customers to provide ongoing services for products sold. The Company utilized the income approach, specifically the distribution method, a subset of the excess-earnings method to value the customer relationships.

A portion of the purchase price has been allocated to intangible assets and goodwill, respectively, and is reflected in the tables above. The fair value of the assets acquired and liabilities assumed is less than the purchase price, resulting in the recognition of goodwill. The goodwill reflects the value of the synergies we expect to realize and the assembled workforce and is not deductible for tax purposes. The purchase price has been allocated to the tangible and intangible assets acquired and liabilities assumed based upon the respective estimates of fair value as of the date of the acquisition, which remains preliminary, and using assumptions that the Company's management believes are reasonable given the information then available. The final allocation of the purchase price may differ materially from the information presented in these condensed consolidated financial statements. Any changes to the preliminary estimates of the fair value of the assets acquired and liabilities assumed during the measurement period will be recorded as adjustments to those assets and liabilities and residual amounts will be allocated to goodwill.

The following table presents the estimated fair values and useful lives of the identifiable intangible assets acquired:

	Amount (in thousands)	Estimated Useful Life (in years)
Developed technology	$ 16,689	10
Customer relationships	235	7
Trade names	40	1
Total identifiable intangible assets	$ 16,964	

Pro Forma Financial Information (unaudited)

The following unaudited pro forma information presents the condensed combined results of operations of the Company and Solebit for the three and six months ended September 30, 2018 and 2017, as if the acquisition of Solebit had been completed on April 1, 2017. These pro forma condensed consolidated financial results have been prepared for comparative purposes only and include certain adjustments that reflect pro forma results of operations such as fair value adjustments (step-downs) for deferred revenue, increased amortization for the fair value of acquired intangible assets and adjustments to eliminate transaction costs incurred by the Company and Solebit.

The unaudited pro forma results do not reflect any operating efficiencies or potential cost savings which may result from the consolidation of the operations of the Company and Solebit. Accordingly, these unaudited pro forma results are presented for informational purposes only and are not necessarily indicative of the results of operations that actually would have been achieved had the acquisition occurred as of April 1, 2017, nor are they intended to represent or be indicative of future results of operations (in thousands, except per share amounts):

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
Revenue	$82,275	$63,307	$161,020	$121,672
Net loss	(1,311)	(2,415)	(5,664)	(5,214)
Basic and diluted net loss per share	$(0.02)	$(0.04)	$(0.10)	$(0.09)
Weighted average number of ordinary shares used in computing basic and diluted net loss per share	59,800	57,027	59,489	56,662

ATAATA, Inc.

On July 9, 2018, the Company acquired ATAATA, Inc. (Ataata), a privately-owned company based in the United States, for cash consideration of approximately $25.1 million, net of cash acquired of $1.9 million. Ataata is a cyber security training and awareness platform designed to reduce human error in the workplace and help enable organizations to become more secure by changing the security culture of their employees. The acquisition will allow customers to measure cyber risk training effectiveness by converting behavior observations into actionable risk metrics for security professionals. The addition of security awareness training and risk scoring and analysis strengthens the Company’s cyber resilience for email capabilities.

The acquisition of Ataata has been accounted for as a business combination and, in accordance with ASC 805, Business Combinations, the Company has recorded the assets acquired and liabilities assumed at their respective fair values as of the acquisition date.

The preliminary purchase price allocation primarily consisted of $1.5 million of identifiable intangible assets and approximately $22.6 million of goodwill that is not deductible for tax purposes. The identifiable intangible assets primarily include developed technology of $1.4 million and customer relationships of $0.1 million, with estimated useful lives of ten and six years, respectively. The goodwill balance is primarily attributed to the expanded market opportunities when combining Ataata's awareness training technology with the Company’s other offerings. The preliminary purchase price and allocations are subject to finalization of amounts due from the seller inclusive of

certain working capital and one-year indemnification period adjustments.

In the three and six months ended September 30, 2018, acquisition-related expenses were $0.1 million and $0.5 million, respectively. Acquisition-related expenses have been included primarily in general and administrative expenses in the condensed consolidated statements of operations. The operating results of Ataata are included in the condensed consolidated statements of operations beginning on the acquisition date.

The Company has not presented pro forma results of operations for the Ataata acquisition because it is not material to the Company's condensed consolidated results of operations, financial position, or cash flows.

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13. Goodwill and Intangible Assets

The following is a rollforward of the Company's goodwill balance:

	Goodwill
Balance as of March 31, 2018	$5,631
Goodwill acquired	97,018
Effect of foreign exchange rates	413
Balance as of September 30, 2018	$103,062

Purchased intangible assets consist of the following:

	Weighted-Average Remaining Useful Life (in years)	September 30, 2018 Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Developed technology	10	$20,226	$ (595)	$19,631
Customer relationships	6	454	(38)	416
Trade Names	1	56	(10)	46
Capitalized Software	3	11,835	(2,407)	9,428
		$32,571	$ (3,050)	$29,521

	Weighted-Average Remaining Useful Life (in years)	March 31, 2018 Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Developed technology	9	$1,546	$ (213)	$ 1,333
Customer relationships	6	108	(21)	87
Capitalized Software	3	9,171	(1,329)	7,842
		10,825	(1,563)	9,262
In-process research and development (1)	N/A	557	—	557
		$11,382	$ (1,563)	$ 9,819

(1) In-process research and development assets were placed in service in the three months ended September 30, 2018.

The Company recorded amortization expense of $1.2 million and $2.0 million for the three and six months ended September 30, 2018. Amortization relating to developed technology and capitalized software was recorded within cost of revenue and amortization of customer relationships and trade names was recorded within sales and marketing expenses.

Future estimated amortization expense of intangible assets as of September 30, 2018, is as follows:

	Purchased Intangible Assets	Capitalized Software
Remainder of 2019	$ 1,097	$ 1,653
2020	2,165	3,384
2021	2,143	2,615
2022	2,143	1,273
2023	2,143	471
Thereafter	10,402	32
Total	$ 20,093	$ 9,428

14. Debt

On July 23, 2018, the Company entered into a credit agreement (the Credit Agreement) with certain lenders, and JPMorgan Chase Bank, N.A., as administrative agent (the Administrative Agent), which provided the Company with a $100.0 million senior secured term loan and a $50.0 million senior secured revolving credit facility (collectively, the Credit Facility). The proceeds of the

Credit Facility, net of $2.3 million of debt issuance costs, are available to fund working capital and for other corporate purposes, including to finance permitted acquisitions and investments. Interest under the Credit Facility accrues at a rate between LIBOR plus 1.375% and LIBOR plus 1.875%, based on the Company’s ratio of indebtedness to earnings before interest, taxes, depreciation, amortization and certain other adjustments (Consolidated EBITDA). Based on this ratio, the current interest rate as of September 30, 2018 under the Credit Facility is LIBOR plus 1.625%. The term of the Credit Facility is five years, maturing on July 23, 2023. At the time the Company entered into the Credit Agreement, there was no outstanding debt.

The Credit Agreement has financial covenants that require the Company to maintain a Consolidated Secured Leverage Ratio (as defined in the Credit Agreement), commencing on September 30, 2018, of not more than 3.00 to 1.00 for the four consecutive fiscal quarter period ending on the last day of each fiscal quarter (the Reference Period), with a step-up to 3.50 to 1.00 for any four-quarter period in which the Company consummates a permitted acquisition having an aggregate purchase price in excess of $25,000,000. The Company must also maintain a Consolidated Interest Expense Ratio (as defined in the Credit Agreement) of 3.00 to 1.00 commencing on September 30, 2018 and for each Reference Period thereafter. The Company was in compliance with all covenants as of September 30, 2018.

The Company allocated debt issuance costs on a pro-rata basis between the senior secured term loan and senior secured revolving credit facility. The debt issuance costs on the senior secured term loan are recorded as a reduction of debt and are amortized and recognized as additional interest expense over the life of the debt instrument using the effective interest method. The debt issuance costs on the senior secured revolving credit facility are recorded in other assets and are amortized and recognized as additional interest expense over the life of the senior secured revolving credit facility on a straight-line basis. As of September 30, 2018, the balance of debt issuance costs recorded as a reduction of debt was $1.4 million and the balance of debt issuance costs recorded in other assets was $0.7 million.

All obligations under the Credit Agreement are unconditionally guaranteed by all of the Company’s material direct and indirect subsidiaries organized under the laws of the United States, the United Kingdom, the Bailiwick of Jersey, and other jurisdictions agreed to by the Company and the Administrative Agent, with certain exceptions. These guarantees are secured by substantially all of the present and future property and assets of the guarantors, with certain exclusions.

As of September 30, 2018, the Company had $99.4 million outstanding on the senior secured term loan and had no outstanding borrowings under the senior secured revolving credit facility. Total availability under the senior secured revolving credit facility is reduced by outstanding letters of credit of $3.9 million. As of September 30, 2018, total availability under the senior secured revolving credit facility was $46.1 million. Future minimum principal payment obligations under the senior secured term loan are as follows:

Year Ending March 31,	Debt
Remainder of 2019	$1,250
2020	4,375
2021	6,875
2022	9,375
2023	10,000
2024	67,500
Total minimum debt payments	$99,375
Less: Debt issuance costs	(1,407)
Less: Current portion of long-term debt	(2,814)
Long-term debt	$95,154

18

15. Commitments and Contingencies

Leases

Capital leases

The Company has entered into various capital lease arrangements for computer equipment with non-cancelable terms through January 2022. As of September 30, 2018, future minimum commitments for capital leases were as follows:

Year Ending March 31,	Capital Leases
Remainder of 2019	$722
2020	1,102
2021	1,102
2022	326
Total minimum lease payments	$3,252
Less: Amount representing interest	(196)
Present value of capital lease obligations	3,056
Less: Current portion	(1,164)
Long-term portion of capital lease obligations	$1,892

Construction financing lease obligations

The Company leases certain facilities under build-to-suit leases whereby the Company is deemed to be the owner of the building during the construction period for accounting purposes. For build-to-suit leases, the Company recorded certain estimated construction costs incurred and reported to it by the landlord for the buildings as an asset and corresponding construction financing lease obligation on the condensed consolidated balance sheets. Since the Company's unit of account is related only to its portion of the buildings, the Company determined that it does not have land leases and has not recorded rent expense attributable to the land. Any incremental costs incurred directly by the Company are also capitalized. In each reporting period, the landlord estimates and reports to the Company construction costs incurred to date for the buildings and the Company records its portion using allocation estimates. The Company periodically meets with the landlord and its construction manager to review these estimates and observe construction progress before recording such amounts.

Lexington, MA - U.S. Headquarters

The construction of the Company's Lexington, MA – U.S. headquarters was substantially completed during the quarter ended March 31, 2018, and because the Company concluded it had a collateralized letter of credit of $1.3 million, the Company did not meet the sale-leaseback criteria for derecognition of the building asset and liability. As a result, the Company continues to be the deemed owner of the building and will treat the lease as a financing obligation and depreciate the asset in accordance with the Company's accounting policy.

The monthly rent payments made to the lessor under the lease agreement are recorded in the Company's financial statements as principal and interest on the financing obligation. For the three and six months ended September 30, 2018, interest expense on lease financing obligations was $0.5 million and $0.9 million, respectively. As of September

30, 2018, the future estimated commitments related to the financing obligations were $38.5 million and $10.2 million for principal and interest, respectively, through January 31, 2028.

London, U.K. - U.K. Headquarters

In January 2018, the Company entered into an Agreement for Lease (AFL) for its new U.K. headquarters located in London, England (UK Building). The AFL was entered into around the time the landlord had commenced a construction project to refurbish the UK Building and includes terms and conditions that are in effect during the construction project. Additionally, the AFL includes Leases in Agreed Form (Leases) to be executed upon completion of the construction project, which is expected in or around February 2019. Under the terms of the AFL and Leases, the Company will initially lease approximately 113,000 square feet of space for 56.50 British pounds per square foot per year over an initial noncancelable term of 10 years after initial occupancy, which is expected in the Company's third fiscal quarter of 2020. The Company determined that it will account for the AFL as a build-to-suit lease as of March 31, 2018.

As of September 30, 2018, Property and equipment, net, includes $40.6 million related to the UK Building and construction costs for the UK Building. The construction financing lease obligation related to the UK Building was $39.7 million and was incurred by the landlord only and no cash was paid to the landlord by us related to the UK Building since lease inception.

Once the landlord completes the construction of the UK Building, the Company will evaluate the AFL and Leases in order to determine whether or not the AFL and Leases meet the criteria for “sale-leaseback” treatment. If the AFL and Leases meet the “sale-leaseback” criteria, the Company will remove the asset and the related liability from its condensed consolidated balance sheet and treat the Leases as either an operating or a capital lease based on the Company’s assessment of the accounting guidance. If the Company continues to be the deemed owner, the Company will treat the AFL and Leases as a financing obligation and will depreciate the asset in accordance with the Company’s accounting policy.

Litigation

The Company, from time to time, may be party to litigation arising in the ordinary course of its business. The Company was not subject to any material legal proceedings during the three and six months ended September 30, 2018 and 2017, and, to the best of its knowledge, no material legal proceedings are currently pending or threatened.

Indemnification

The Company typically enters into indemnification agreements with customers in the ordinary course of business. Pursuant to these agreements, the Company indemnifies and agrees to reimburse the indemnified party for losses suffered or incurred as a result of claims of intellectual property infringement. These indemnification agreements are provisions of the applicable customer agreement. Based on when clients first sign an agreement for the Company’s service, the maximum potential amount of future payments the Company could be required to make under certain of these indemnification agreements is unlimited. Based on historical experience and information known as of September 30, 2018 and March 31, 2018, the Company has not incurred any costs for the above guarantees and indemnities.

In certain circumstances, the Company warrants that its services will perform in all material respects in accordance with its standard published specification documentation in effect at the time of delivery of the services to the customer for the term of the agreement. To date, the Company has not incurred significant expense under its warranties and, as a result, the Company believes the estimated fair value of these agreements is immaterial.

16. Segment and Geographic Information

Geographic Data

The Company allocates, for the purpose of geographic data reporting, its revenue based upon the location of the contracting subsidiary. Total revenue by geographic area was as follows:

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017

Revenue:				
United States	$41,135	$31,076	$79,068	$60,268
United Kingdom	25,114	19,635	49,670	37,502
South Africa	11,014	9,393	22,636	18,174
Other	4,906	2,962	9,199	5,280
Total revenue	$82,169	$63,066	$160,573	$121,224

Property and equipment, net by geographic location consists of the following:

	As of September 30, 2018	As of March 31, 2018
United States (1)	$ 61,601	$ 62,064
United Kingdom (2)	56,039	46,664
South Africa	5,821	6,512
Australia	3,333	3,953
Other	4,814	4,629
Total	$ 131,608	$ 123,822

(1) Includes construction costs capitalized under financing lease obligations related to the Company’s U.S. build-to-suit facilities of $37.8 million and $39.4 million as of September 30, 2018 and March 31, 2018, respectively.
(2) Includes construction costs capitalized under financing lease obligations related to the Company’s U.K. build-to-suit facility of $40.6 million and $31.2 million as of September 30, 2018 and March 31, 2018, respectively.

17. Income Taxes

The provision for income taxes for the three months ended September 30, 2018 and 2017 was $0.6 million and $0.4 million, respectively, on the loss before income taxes of $(1.4) million and $(0.9) million, respectively. The provision for income taxes for the six months ended September 30, 2018 and 2017 was $1.5 million and $0.9 million, respectively, on the loss before income taxes of $(4.0) million and $(2.4) million, respectively. The provision for income taxes for the three and six months ended September 30, 2018 was primarily attributable to the tax provision provided on the earnings in the Company’s South African entity, partially offset by the tax benefit provided on the loss in the Company’s Israel entity. In addition, during the three months ended September 30, 2018, the Company recorded a discrete tax benefit of $0.4 million for the release of a portion of the Company’s pre-existing U.S. valuation allowance as a result of the Ataata business combination. The provision for income taxes for the three and six months ended September 30, 2017 was primarily attributable to earnings in the Company’s U.S. and South African entities offset by $3.0 million and $4.2 million, respectively in excess tax benefits resulting from share option exercises by employees.

In assessing the Company’s ability to realize its net deferred tax assets, the Company considered various factors including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations to determine whether it is more likely than not that some portion or all of its net deferred tax assets will not be realized. Based upon these factors, the Company has determined that the uncertainty regarding the realization of these assets is sufficient to warrant the need for a full valuation allowance against its net deferred tax assets as of September 30, 2018.

As of September 30, 2018 and March 31, 2018, the Company had liabilities for uncertain tax positions of $6.0 million and $6.2 million, respectively, none of which, if recognized, would impact the Company’s effective tax rate. Interest and penalty charges, if any, related to uncertain tax positions would be classified as income tax expense in the accompanying condensed consolidated statements of operations. As of September 30, 2018 and March 31, 2018, accrued interest or penalties related to uncertain tax positions are immaterial.

During the third quarter of fiscal 2018, the Tax Cuts and Jobs Act (the Act) was enacted in the United States. Additionally, during the third quarter of fiscal 2018, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of US GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Act. The Company did not adjust any of its provisional estimates during the three months ended September 30, 2018. The Company will continue to refine its calculations as additional analysis is completed during the measurement period. In addition, the Company’s estimates may also be affected as the Company gains a more thorough understanding of changes to the tax law resulting from the passage of the Act. The Company anticipates completing its assessment of the impact of the Act during the third quarter 2019.

18. Recently Issued and Adopted Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standard setting bodies and adopted by the Company as of the specified effective date.

Recently Adopted Accounting Pronouncements

On April 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under legacy GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. See Note 1 for the impact of the adoption on revenue recognition and accounting for costs to obtain a contract.

On April 1, 2018 the Company adopted ASU No. 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01). ASU 2016-01 requires equity investments that do not result in consolidation and are not accounted under the equity method to be measured at fair value with changes in fair value recognized in net income; simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to

measure the liability at fair value in accordance with the fair value option for financial instruments; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the accompanying notes to the financial statements; clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets; and modifies certain fair value disclosure requirements. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

On April 1, 2018 the Company adopted ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15). ASU 2016-15 is intended to add or clarify guidance on the classification of certain cash receipts and payments in the statement of cash flows and to eliminate the diversity in practice related to such classifications. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

On April 1, 2018 the Company adopted ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (ASU 2016-16). The purpose of ASU 2016-16 is to simplify the income tax accounting of an intra-entity transfer of an asset other than inventory and to record its effect when the transfer occurs. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

On April 1, 2018 the Company adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18). ASU 2016-18 requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The adoption of this standard had no impact on the Company's condensed consolidated financial statements.

On April 1, 2018 the Company adopted ASU 2017-01, Business Combinations (Topic 805) - Clarifying the Definition of a Business (ASU 2017-01). The amendment changes the definition of a business to assist entities in evaluating when a set of transferred assets and activities constitutes a business. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

On April 1, 2018 the Company adopted ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting (ASU 2017-09). This guidance clarifies when companies would apply modification accounting to changes to the terms or conditions of a share-based payment award. The guidance narrows the definition of a modification. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

On July 1, 2018, the Company adopted ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-24): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract (ASU 2018-15) on a prospective basis. ASU 2018-15 requires a customer in a cloud computing arrangement that is a service contract (hosting arrangement) to follow the internal use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. See Note 8 for the impact of the adoption.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 requires a lessee to recognize most leases on the balance sheet but recognize expenses on the income statement in a manner similar to current practice. The update states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying assets for the lease term. This ASU is

effective for annual reporting periods beginning after December 15, 2018 and early adoption is permitted. The Company intends to adopt ASU 2016-02 on April 1, 2019 utilizing the modified retrospective transition method. The Company is currently in the process of evaluating the impact of ASU 2016-02 on its consolidated financial statements, but expects that it will have a material impact on the Company’s consolidated financial statements, primarily the consolidated balance sheets and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326). The amendment changes the impairment model for most financial assets and certain other instruments. Entities will be required to use an expected loss model that will result in the earlier recognition of allowances for losses for trade and other receivables, held-to-maturity debt securities, loans, and other instruments. For available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. The ASU is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted. The Company is currently in the process of evaluating the impact and timing of adoption of the ASU 2016-13 on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment (ASU 2017-04). The standard eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. The standard is effective for annual and interim goodwill impairment tests conducted in fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently in the process of evaluating the impact and timing of adoption of the ASU 2017-04 on its condensed consolidated financial statements.

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

The following discussion and analysis of our financial condition and results of our operations should be read in conjunction with the (1) unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (2) the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended March 31, 2018, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or the SEC, on May 29, 2018. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act." These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other 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 herein, and those discussed in the section titled "Risk Factors" in this Quarterly Report on Form 10-Q and set forth in our other SEC filings, including our Annual Report on Form 10-K filed with the SEC on May 29, 2018. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Business Overview

We are a leading global provider of next generation cloud security and risk management services for corporate information and email. Our fully-integrated suite of proprietary cloud services protects customers of all sizes from the significant business and data security risks to which their email system exposes them. We protect customers from today's rapidly changing threat landscape where email has become a powerful attack vector and data leak concern. We also mitigate the significant business disruption that email failure or downtime causes. In addition, our archiving services secure, store and manage critical corporate communications and information to address growing compliance, regulatory and e-discovery requirements and enable customers to use this increasing archive of information to improve employee productivity.

We operate our business on a software-as-a-service, or SaaS, model with renewable annual subscriptions. Customers enter into annual and multi-year contracts to utilize various components of our services. Our subscription fee includes the use of the selected service and technical support. We believe our technology, subscription-based model, and customer support have led to our high revenue retention rate, which has helped us drive our strong revenue growth. We have historically experienced significant revenue growth from our existing customer base as they renew our services and purchase additional products.

We market and sell our services to organizations of all sizes across a broad range of industries. As of September 30, 2018, we provided our services to approximately 32,200 customers and protected millions of their employees across the world. We generate sales through our network of channel partners as well as through our direct sales force. Our growth and future success depends on our ability to expand our customer base and to sell additional services to our existing customers.

In the six months ended September 30, 2018, we generated 51% of our revenue outside of the United States, with 31% generated from the United Kingdom, 14% from South Africa and 6% from the rest of the world. Our most significant growth market is the United States. We also believe that there is significant opportunity in our other existing markets. We intend to make significant investments in sales and marketing to continue expanding our customer base in our target markets.

We were founded in 2003 with a mission to make email safer and better, and to transform the way organizations protect, store and access their email and corporate information. Our first service, Mimecast Email Security, which we launched in late 2003, was quickly followed by Mimecast Email Continuity. In 2004, we added Mimecast Enterprise Information Archiving. These three services generate a large proportion of our revenue today. In 2006, we started the development of our proprietary cloud architecture, which we refer to as Mime | OS™. We believed early on that investing in the development of our own cloud operating system was a strategic requirement that would enable us to integrate and scale our services. Mimecast Large File Send was released in 2013 and was followed by Mimecast Targeted Threat Protection in 2014, our advanced persistent threat protection service. In 2014, we also released comprehensive risk mitigation technologies specifically for Microsoft Office 365®, and in 2015, we released Mimecast Secure Messaging. In 2016 and 2017, we announced the newest aspects of our Targeted Threat Protection service, Impersonation Protect and Internal Email Protect, respectively. Additionally, in 2017, we acquired technology from iSheriff, Inc. to provide our customers additional real-time email threat intelligence and detection expertise complementing our existing portfolio of email security, continuity and archiving solutions. In fiscal 2018, we announced Sync & Recover, a service to enable fast mailbox recovery in the event omnipresent attackers are successful in penetrating an organization. In fiscal 2019, Mimecast opened an early adopter program for new web security services that provide an easy to deploy and use DNS solution alongside Mimecast's core email offering. With the acquisition of ATAATA, Inc., or Ataata, and Solebit LABS, Ltd., or Solebit, Mimecast entered the security awareness training market and added leading threat detection technology.

Key Factors Affecting Our Performance

We believe that the growth of our business and our future success are dependent upon a number of key factors, including the following:

Acquisition of new customers. We employ a sales strategy that focuses on acquiring new customers through our direct sales force and network of channel partners, and selling additional products to existing customers. Acquiring new customers is a key element of our continued success, growth opportunity and future revenue. We have invested in and intend to continue to invest in our direct sales force and channel partners. During the twelve months ended September 30, 2018, our customer base increased by approximately 4,000 organizations.

Further penetration of existing customers. Our direct sales force, together with our channel partners and dedicated customer experience team, seek to generate additional revenue from our existing customers by adding more employees and selling additional services. We continue to believe a significant opportunity exists for us to sell additional services to current customers as they experience the benefits of our services and we address additional business use cases.

Investment in growth. We are expanding our operations, increasing our headcount and developing software to both enhance our current offerings and build new features. We expect our total operating expenses to increase, particularly as we continue to expand our sales operations, marketing activities and research and development team. We intend to continue to invest in our sales, marketing and customer experience organizations to drive additional revenue and support the growth of our customer base. Investments we make in our sales and marketing and research and development organizations will occur in advance of experiencing any benefits from such investments. For the year ending March 31, 2019, we plan to continue increasing the size of our sales force and to invest in the development of additional marketing content. We have increased and plan to continue to increase the size of our research and development team.

Currency fluctuations. We conduct business in the United States and in other countries in North America, the United Kingdom and other countries in Europe, South Africa and other countries in Africa, and also Australia. As a result, we are exposed to risks associated with fluctuations in currency exchange rates, particularly between the U.S. dollar, the British pound and the South African rand. In the six months ended September 30, 2018, 51% of our revenue was denominated in U.S. dollars, 29% in British pounds, 14% in South African rand and 6% in other currencies. Given that our functional currency and the functional currency of our subsidiaries is the local currency of each entity but our reporting currency is the U.S. dollar, devaluations of the British pound, South African rand and other currencies relative to the U.S. dollar impacts our profitability.

Key Performance Indicators

In addition to traditional financial metrics, such as revenue and revenue growth trends, we monitor several other key performance indicators to help us evaluate growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts and assess operational efficiencies. The key performance indicators that we monitor are as follows:

	Three months ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands)			

Revenue constant currency growth rate (1)	32 %	41 %	32 %	42 %
Revenue retention rate	110 %	111 %	110 %	111 %
Total customers (2)	32,200	28,200	32,200	28,200
Gross profit percentage	73 %	74 %	73 %	74 %
Adjusted EBITDA (1)	$12,312	$6,652	$22,270	$11,796

(1) Adjusted EBITDA and revenue constant currency growth rates are non-GAAP financial measures. For a reconciliation of Adjusted EBITDA and revenue constant currency growth rates to the nearest comparable GAAP measures, see "—Reconciliation of Non-GAAP Financial Measures" below.

(2) Reflects the customer count on the last day of the period rounded to the nearest hundred customers.

Revenue constant currency growth rate. We believe revenue constant currency growth rate is a key indicator of our operating results. We calculate revenue constant currency growth rate by translating revenue from entities reporting in foreign currencies into U.S. dollars using the comparable foreign currency exchange rates from the prior fiscal period. For further explanation of the uses and limitations of this measure and a reconciliation of our revenue constant currency growth rate to revenue, as reported, the most directly comparable U.S. GAAP measure, please see "—Reconciliation of Non-GAAP Financial Measures" below. As our total revenue grows, we expect our constant currency growth rate will decline as the incremental growth from period to period is expected to represent a smaller percentage of total revenue as compared to the prior period.

Revenue retention rate. We believe that our ability to retain customers is an indicator of the stability of our revenue base and the long-term value of our customer relationships. Our revenue retention rate is driven by our customer renewals and upsells. We calculate our revenue retention rate by annualizing constant currency revenue recorded on the last day of the measurement period for only those customers in place throughout the entire measurement period. We include add-on, or upsell, revenue from additional employees and services purchased by existing customers. We divide the result by revenue on a constant currency basis on the first day of the measurement period for all customers in place at the beginning of the measurement period. The measurement period is the trailing twelve months. The revenue on a constant currency basis is based on the average exchange rates in effect during the respective period. We expect our revenue retention rate in fiscal 2019 periods to remain relatively consistent with fiscal 2018 periods.

Total customers. We believe the total number of customers is a key indicator of our financial success and future revenue potential. We define a customer as an entity with an active subscription contract as of the measurement date. A customer is typically a parent company or, in a few cases, a significant subsidiary that works with us directly. We expect to continue to grow our customer base through the addition of new customers in each of our markets.

Gross profit percentage. Gross profit percentage is calculated as gross profit divided by revenue. Our gross profit percentage has been relatively consistent over the past three years, however, it has fluctuated on a quarterly basis due to timing of the addition of hardware and employees to serve our growing customer base. More recently, gross profit has also included amortization of intangible assets related to acquired businesses. Gross profit fluctuates due to timing of the addition of hardware and employees to serve our growing customer base. We provide our services in each of the regions in which we operate. Costs related to supporting and hosting our product offerings and delivering our services are incurred in the region in which the related revenue is recognized. As a result, our gross profit percentage in actual terms is consistent with gross profit on a constant currency basis.

Adjusted EBITDA. We believe that Adjusted EBITDA is a key indicator of our operating results. We define Adjusted EBITDA as net (loss) income, adjusted to exclude: depreciation, amortization, disposals and impairments of long-lived assets, acquisition-related gains and expenses, share-based compensation expense, restructuring expense, interest income and interest expense, the provision for income taxes and foreign exchange (expense) income. Adjusted EBITDA also includes rent paid in the period related to locations that are accounted for as build-to-suit facilities. For further explanation of the uses and limitations of this measure and a reconciliation of our Adjusted EBITDA to the most directly comparable U.S. GAAP measure, net (loss) income, please see "—Reconciliation of Non-GAAP Financial Measures" below. We expect that our Adjusted EBITDA will continue to increase; however, we expect that our operating expenses will also increase in absolute dollars as we focus on expanding our sales and marketing teams and growing our research and development capabilities.

Reconciliation of Non-GAAP Financial Measures

Revenue constant currency growth rate

In order to determine how our business performed exclusive of the effect of foreign currency fluctuations, we compare the percentage change in our revenue from one period to another using a constant currency. To determine the revenue constant currency growth rate for the fiscal periods below, revenue from entities reporting in foreign currencies was translated into U.S. dollars using the comparable prior period's foreign currency exchange rates. For example, the average rates in effect for the three months ended September 30, 2017 were used to convert revenue for the three months ended September 30, 2018 and the revenue for the comparable prior period ended September 30, 2017, rather than the actual exchange rates in effect during the respective period. Revenue constant currency growth rate is a non-GAAP financial measure. A reconciliation of this non-GAAP measure to its most directly comparable U.S. GAAP measure for the respective periods can be found in the table below:

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Reconciliation of Revenue Constant Currency Growth Rate:				
Revenue, as reported	$82,169	$63,066	$160,573	$121,224
Revenue year-over-year growth rate, as reported	30 %	42 %	32 %	41 %
Estimated impact of foreign currency fluctuations	2 %	(1)%	— %	1 %
Revenue constant currency growth rate	32 %	41 %	32 %	42 %

The impact of foreign exchange rates is highly variable and difficult to predict. We use revenue constant currency growth rate to show the impact from foreign exchange rates on the current period revenue growth rate compared to the prior period revenue growth rate using the prior period's foreign exchange rates. In order to properly understand the underlying business trends and performance of our ongoing operations, we believe that investors may find it useful to consider the impact of excluding changes in foreign exchange rates from our revenue growth rate.

We believe that presenting this non-GAAP financial measure in this Quarterly Report on Form 10-Q provides investors greater transparency to the information used by our management for financial and operational decision-making and allows investors to see our results "through the eyes" of management. We also believe that providing this information better enables our investors to understand our operating performance and evaluate the methodology used by management to evaluate and measure such performance.

However, this non-GAAP measure should not be considered in isolation or as a substitute for our financial results prepared in accordance with U.S. GAAP. For example, revenue constant currency growth rates, by their nature, exclude the impact of foreign exchange, which may have a material impact on U.S. GAAP revenue. Non-GAAP financial measures are not based on any comprehensive set of accounting rules or principles and therefore other companies may calculate similarly titled non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that we define as net (loss) income, adjusted to exclude: depreciation, amortization, disposals and impairments of long-lived assets, acquisition-related gains and expenses, share-based compensation expense, restructuring expense, interest income and interest expense, the provision for income taxes and foreign exchange (expense) income. Adjusted EBITDA also includes rent paid in the period related to locations that are accounted for as build-to-suit facilities.

We believe that Adjusted EBITDA provides investors and other users of our financial information consistency and comparability with our past financial performance, facilitates period-to-period comparisons of operations and facilitates comparisons with our peer companies, many of which use a similar non-GAAP financial measure to supplement their U.S. GAAP results.

We use Adjusted EBITDA in conjunction with traditional U.S. GAAP operating performance measures as part of our overall assessment of our performance, for planning purposes, including the preparation of our annual operating budget, to evaluate the effectiveness of our business strategies, to communicate with our board of directors concerning our financial performance and for establishing incentive compensation metrics for executives and other senior employees.

We do not place undue reliance on Adjusted EBITDA as a measure of operating performance. This non-GAAP measure should not be considered as a substitute for other measures of financial performance reported in accordance with U.S. GAAP. There are limitations to using a non-GAAP financial measure, including that other companies may calculate this measure differently than we do, that it does not reflect our capital expenditures or future requirements for capital expenditures and that it does not reflect changes in, or cash requirements for, our working capital.

The following table presents a reconciliation of net loss to Adjusted EBITDA:

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Reconciliation of Adjusted EBITDA:				
Net loss	$(2,058)	$(1,339)	$(5,529)	$(3,239)
Depreciation, amortization and disposals of long-lived assets	7,354	4,250	14,280	7,859
Rent expense related to build-to-suit facilities	(1,028)	—	(1,918)	—
Interest expense (income), net	1,025	(245)	1,108	(453)
Provision for income taxes	622	421	1,480	878
Share-based compensation expense	6,109	2,910	11,290	5,556
Restructuring	(170)	—	(170)	—
Foreign exchange expense	79	655	620	1,195
Acquisition-related expenses (1)	717	—	1,447	—
Gain on previously held asset (1)	(338)	—	(338)	—
Adjusted EBITDA	$12,312	$6,652	$22,270	$11,796

(1) Acquisition-related gains and expenses relates to acquisitions occurring in the three months ended September 30, 2018. See Note 12 for further information.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates, assumptions and judgments that can have a significant impact on the reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our financial statements. We base our estimates, assumptions and judgments on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. On a regular basis, we evaluate our estimates, assumptions and judgments and make changes accordingly.

We believe that the estimates, assumptions and judgments involved in revenue recognition, deferred revenue, share-based compensation and accounting for income taxes have the greatest potential impact on our consolidated financial statements, and consider these to be our critical accounting policies. Historically, our estimates, assumptions and judgments relative to our critical accounting policies have not differed materially from actual results. For further information on our critical and other significant accounting policies, see the notes to the condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K filed with the SEC on May 29, 2018. See Note 1 to the unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q for changes to our significant accounting policies since the year ended March 31,

2018.

Recent Accounting Pronouncements

See Note 18 to the unaudited condensed consolidated financial statements of this Quarterly Report on Form 10-Q.

Components of Consolidated Statements of Operations

Revenue

We generate substantially all of our revenue from subscription fees paid by customers accessing our cloud services and by customers purchasing additional support beyond the standard support that is included in our basic subscription fees. A small portion of our revenue consists of related professional services and other revenue, which consists primarily of performance obligations related to set-up, ingestion and training fees.

We generally license our services on a price per employee basis under annual contracts. In some instances, we receive upfront payments which are determined to be material rights to a discount upon renewal. In these instances, we recognize revenue related to the upfront payment over the estimated customer benefit period, which has been determined to be six years.

We serve approximately 32,200 customers in multiple industries, and our revenue is not concentrated with any single customer or industry. For the three and six months ended September 30, 2018 and 2017, no single customer accounted for more than 1% of our revenue, and our largest ten customers accounted for less than 10% of our revenue in aggregate.

Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue, depending on whether the revenue recognition criteria have been met.

We recognize revenue ratably on a straight-line basis over the subscription term, which begins when we have given the customer access to our SaaS solutions. Our subscription contracts are typically one year in duration and do not contain refund-type provisions.

Our professional services contracts are recognized based on out-put measures of performance.

Cost of revenue

Cost of revenue primarily consists of expenses related to supporting and hosting our product offerings and delivering our professional services. These costs consist primarily of personnel and related costs including salaries, benefits, bonuses and share-based compensation expense related to the management of our data centers, our customer support team and our professional services team. In addition to these expenses, we incur third-party service provider costs such as data center and networking expenses, allocated overhead costs, depreciation expense and amortization expense related to intangible assets. We allocate overhead costs, such as rent and facility costs, information technology costs and employee benefit costs to all departments based on headcount. As such, general overhead expenses are reflected in cost of revenue and each operating expense category.

We expect our cost of revenue to increase in absolute dollars due to expenditures related to the purchase of hardware, expansion and support of our data center operations and customer support teams. We also expect that cost of revenue as a percentage of revenue will decrease over time as we are able to achieve economies of scale in our business, although it may fluctuate from period to period depending on the timing of significant expenditures. To the extent that our customer base grows, we intend to continue to invest additional resources in expanding the delivery capability of our products and other services. The timing of these additional expenses could affect our cost of revenue, both in terms of absolute dollars and as a percentage of revenue in any particular quarterly or annual period.

Research and development expenses

Research and development expenses consist primarily of personnel and related costs, including salaries, benefits, bonuses, share-based compensation expense, costs of server usage by our developers and allocated overhead costs. We expense all research and development costs as they are incurred. We have focused our efforts on developing new versions of our SaaS technology with expanded features. Our technology is constantly being refined and, as such, we do not capitalize development costs. We believe that continued investment in our technology is important for our future growth. As a result, we expect research and development expenses to increase in absolute dollars as we make further substantial investments in developing our Mime | OS™ platform, improving our existing services and creating new features and products. Research and development expenses as a percentage of total revenue may fluctuate on a quarterly basis but we expect it to increase in the coming fiscal year as a result of the expected investments noted above.

Sales and marketing expenses

Sales and marketing expenses consist primarily of personnel and related costs, including salaries, benefits, bonuses, commissions and share-based compensation expense. In addition to these expenses, we incur costs related to marketing and promotional events, online marketing, product marketing and allocated overhead costs. We expense all costs as they are incurred, excluding sales commissions identified as incremental costs to obtain a contract, which are capitalized and amortized over the life of our customers, which we estimate to be six years. Sales and marketing expenses increased in the three and six months ended September 30, 2018 as we continued to expand our sales and marketing efforts globally, and particularly in the United States. We expect that our sales and marketing expenses will continue to increase substantially in the year ending March 31, 2019. New sales personnel require training and may take several months or more to achieve productivity; as such, the costs we incur in connection with the hiring of new sales personnel in a given period are not typically offset by increased revenue in that period and may not result in new revenue if these sales personnel fail to become productive. We expect to increase our investment in sales and marketing as we add new services, which will increase these expenses in absolute dollars. Over the long term, we believe that sales and marketing expenses as a percentage of revenue will decrease, but will vary depending upon the mix of revenue from new and existing customers, as well as changes in the productivity of our sales and marketing programs.

General and administrative expenses

General and administrative expenses consist primarily of personnel and related expenses for executive, legal, finance, information technology and human resources functions, including salaries, benefits, incentive compensation and share-based compensation expense, in addition to the costs associated with professional fees, insurance premiums, other corporate expenses and allocated overhead costs. We expect general and administrative expenses to increase in absolute dollars as we continue to incur additional personnel and professional services costs in order to support business growth as well as meeting the compliance requirements of operating as a public company, including those costs incurred in connection with Section 404 of the Sarbanes-Oxley Act, costs associated with the loss of our status as a foreign private issuer, and costs associated with acquisitions, funding transactions, the adoption of new accounting standards, including Accounting Standards Codification (ASC) 606, Revenue Recognition, and Accounting Standards Update (ASU) 2016-02, Leases, among others. Over the long term, we believe that general and administrative expenses as a percentage of revenue will decrease.

Other income (expense)

Other income (expense) is comprised of the following items:

Interest income

Interest income includes interest income earned on our cash, cash equivalents and investments balances. We expect interest income to vary each reporting period depending on our average cash, cash equivalents and investments balances during the period and market interest rates.

Interest expense

Interest expense consists primarily of interest expense associated with our construction financing lease obligations, capital leases and our long-term debt. We expect interest expense to increase in fiscal 2019 primarily due to the Credit Facility entered into in July 2018.

Foreign exchange expense and other, net

Foreign exchange expense and other, net consists primarily of foreign exchange fluctuations related to short-term intercompany accounts and foreign currency exchange gains and losses related to transactions denominated in currencies other than the functional currency for each of our subsidiaries. We expect our foreign currency exchange gains and losses to continue to fluctuate in the future as foreign currency exchange rates change, however, we expect foreign currency exchange gains and losses could be less significant in the fiscal year ending March 31, 2019 as compared to the fiscal year ended March 31, 2018 due to the capitalization and repayment of certain intercompany balances during fiscal 2018.

Provision for income taxes

We operate in several tax jurisdictions and are subject to taxes in each country or jurisdiction in which we conduct business. We account for income taxes in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized based on temporary differences between the financial reporting and income tax bases for assets and liabilities using statutory rates. In addition, this method requires a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Our provision for income taxes for the three and six months ended September 30, 2018 is primarily attributable to the tax provision provided on the earnings in the Company’s South African entity, partially

offset by the tax benefit provided on the loss in our Israeli entity. In addition, during the three months ended September 30, 2018, we recorded a discrete tax benefit of $0.4 million for the release of a portion of our pre-existing U.S. valuation allowance as a result of the Ataata business combination. The provision for income taxes for the three and six months ended September 30, 2017 is primarily attributable to earnings in our U.S. and South African entities offset by $3.0 million and $4.2 million, respectively, in excess tax benefits resulting from share option exercises by employees.

Comparison of Period-to-Period Results of Operations

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

	Three months ended September 30,		Six months ended September 30,	
	2018	2017	2018	2017
	(in thousands)			
Revenue	$82,169	$63,066	$160,573	$121,224
Cost of revenue	21,938	16,543	42,914	31,795
Gross profit	60,231	46,523	117,659	89,429
Operating expenses				
Research and development	14,157	8,262	27,257	16,183
Sales and marketing	34,705	30,155	68,908	57,714
General and administrative	12,448	8,614	24,662	17,151
Restructuring	(170)	—	(170)	—
Total operating expenses	61,140	47,031	120,657	91,048
Loss from operations	(909)	(508)	(2,998)	(1,619)
Other income (expense)				
Interest income	543	314	987	553
Interest expense	(1,568)	(69)	(2,095)	(100)
Foreign exchange expense and other, net	498	(655)	57	(1,195)
Total other income (expense), net	(527)	(410)	(1,051)	(742)
Loss before income taxes	(1,436)	(918)	(4,049)	(2,361)
Provision for income taxes	622	421	1,480	878
Net loss	$(2,058)	$		