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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

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 001-40787

ForgeRock, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**33-1223363**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
201 Mission Street Suite 2900 San Francisco CA	**94105**
(Address of Principal Executive Offices)	(Zip Code)

(415) 599-1100

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock	FORG	New York Stock Exchange

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(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, 2022, there were 47,666,366 shares of the registrant's Class A common stock outstanding and 37,692,159 shares of the registrant's Class B common stock outstanding.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risk and uncertainties. Forward-looking statements generally relate to future events or ForgeRock’s future financial or operating performance. In some cases, you can identify forward looking statements because they contain words such as "may," "will," "should," "expects," "plans," "anticipates," “going to,” "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these words or other similar terms or expressions that concern ForgeRock’s expectations, strategy, priorities, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our proposed acquisition by entities affiliated with Thoma Bravo, L.P. (“Thoma Bravo”);
- our expectations regarding the timing and completion of the proposed acquisition by entities affiliated with Thoma Bravo;
- our future financial performance, including our expectations regarding our revenue, cost of revenue, operating expenses, our ability to determine reserves and our ability to achieve and maintain future profitability;
- our future operational performance, including our expectations regarding ARR, dollar-based net retention rate, and the number of large customers;
- the sufficiency of our cash, cash equivalents and investments to meet our liquidity needs;
- the demand for our products and services or for security solutions in general, including our recently introduced SaaS offering, the ForgeRock Identity Cloud;
- our ability to attract and retain customers and partners;
- our ability to cross-sell to our existing customers;
- our ability to develop new products and features and bring them to market in a timely manner and make enhancements to our offerings;
- our ability to compete with existing and new competitors in existing and new markets and offerings;
- our expectations regarding the effects of existing and developing laws and regulations, including with respect to privacy, data protection and information security, as well as taxation;
- the impact of the military conflict in Ukraine and related sanctions against Russia and Belarus on our business, including inflationary pressures and interest rate risks;
- our ability to manage and insure risk associated with our business;
- our expectations regarding new and evolving markets;
- our ability to develop and protect our brand;
- our ability to maintain the security and availability of our platform and protect against data breaches and other security incidents;
- our expectations and management of future growth;
- our ability to continue to expand internationally and our exposure to fluctuations in foreign currencies;
- our expectations concerning relationships with third parties, including channel, system integrator and technology partners;
- our ability to obtain, maintain, protect, enhance, defend or enforce our intellectual property;
- our ability to utilize open source software in our platform and offerings;
- our ability to successfully acquire and integrate companies and assets;
- the attraction and retention of qualified employees and key personnel, including our direct sales force;
- our estimated total addressable market; and
- the increased expenses associated with being a public company.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. The outcomes of the events described in these forward-looking statements are subject to risks, uncertainties, and other factors related to our proposed acquisition by entities affiliated with Thoma Bravo and those described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements.

PART I – FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

FORGEROCK, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 138,542	$ 128,381
Short-term investments	203,971	241,411
Accounts receivable, net of allowance for credit losses of $155 and $34, respectively	33,307	55,999
Contract assets	22,778	19,670
Deferred commissions	8,697	8,457
Prepaid expenses and other assets	12,899	9,787
Total current assets	420,194	463,705
Deferred commissions	17,891	15,601
Property and equipment, net	2,800	2,463
Operating lease right-of-use assets	10,272	12,626
Contract and other assets	3,495	2,783
Total assets	$ 454,652	$ 497,178
Liabilities and stockholders’ equity		
Current liabilities:		
Accounts payable	$ 1,511	$ 2,039
Accrued expenses	8,961	5,016
Accrued compensation	19,214	22,359
Current portion of operating lease liability	1,562	1,820
Deferred revenue	57,923	67,222
Other liabilities	1,331	2,258
Total current liabilities	90,502	100,714
Long-term debt	39,579	39,483
Long-term operating lease liability	9,519	11,037
Deferred revenue	1,377	8,172
Other liabilities	1,909	1,646
Total liabilities	142,886	161,052
Commitments and contingencies (Note 8)		
Stockholders’ equity:		
Class A common stock; $0.001 par value; 1,000,000 shares authorized as of September 30, 2022 and December 31, 2021,47,504 and 28,892 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	47	29
Class B common stock; $0.001 par value; 500,000 shares authorized as of September 30, 2022 and December 31, 2021,37,726 and 53,761 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively	38	54
Additional paid-in capital	623,671	593,196
Accumulated other comprehensive income	1,613	6,672
Accumulated deficit	(313,603)	(263,825)
Total stockholders’ equity	311,766	336,126
Total liabilities and stockholders’ equity	$ 454,652	$ 497,178

See accompanying notes to condensed consolidated financial statements

FORGEROCK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue:				
Subscription term licenses	$ 23,904	$ 19,364	$ 59,089	$ 62,949
Subscription SaaS, support & maintenance	31,282	22,940	87,029	61,543
Perpetual licenses	91	183	197	885
Total subscriptions and perpetual licenses	55,277	42,487	146,315	125,377
Professional services	2,943	1,739	7,674	3,652
Total revenue	58,220	44,226	153,989	129,029
Cost of revenue:				
Subscriptions and perpetual licenses	6,635	4,517	18,903	12,312
Professional services	2,929	3,977	8,692	10,658
Total cost of revenue	9,564	8,494	27,595	22,970
Gross profit	48,656	35,732	126,394	106,059
Operating expenses:				
Research and development	15,554	10,827	45,699	31,214
Sales and marketing	28,973	22,509	86,001	64,795
General and administrative	14,551	11,188	43,030	28,091
Acquisition-related costs	2,364	—	2,364	—
Total operating expenses	61,442	44,524	177,094	124,100
Operating loss	(12,786)	(8,792)	(50,700)	(18,041)
Foreign currency gain (loss)	2,173	(2,684)	3,634	(3,003)
Fair value adjustment on warrants and preferred stock tranche option	—	(2,729)	—	(10,068)
Interest expense	(894)	(1,195)	(2,674)	(3,572)
Other income (expense), net	721	339	1,065	(66)
Interest and other expense, net	2,000	(6,269)	2,025	(16,709)
Loss before income taxes	(10,786)	(15,061)	(48,675)	(34,750)
Provision for income taxes	152	205	1,103	660
Net loss	$ (10,938)	$ (15,266)	$ (49,778)	$ (35,410)
Net loss per share attributable to common stockholders:				
Basic and diluted	$ (0.13)	$ (0.44)	$ (0.59)	$ (1.26)
Weighted-average shares used in computing net loss per share attributable to common stockholders:				
Basic and diluted	85,085	34,680	84,488	28,124

See accompanying notes to condensed consolidated financial statements

FORGEROCK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	$ (10,938)	$ (15,266)	$ (49,778)	$ (35,410)
Other comprehensive loss, net of tax:				
Net change in unrealized gain (loss) on available-for-sale securities	(7)	20	(2,174)	24
Foreign currency translation adjustment	(1,440)	2,804	(2,885)	2,045
Total comprehensive loss	$ (12,385)	$ (12,442)	$ (54,837)	$ (33,341)

See accompanying notes to condensed consolidated financial statements

FORGEROCK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands, except share data)
(Unaudited)

For the Three Months Ended September 30, 2022 and 2021

	Redeemable convertible preferred stock		Class A and Class B common stock and Common stock		Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount				
Balances at June 30, 2022	—	$ —	84,998,350	$ 85	$ 615,321	$ 3,060	$ (302,665)	$ 315,801
Stock-based compensation expense	—	—	—	—	7,725	—	—	7,725
Issuance of common stock for stock plans, net	—	—	232,464	—	625	—	—	625
Unrealized loss on available-for-sale securities	—	—	—	—	—	(7)	—	(7)
Foreign currency translation adjustment	—	—	—	—	—	(1,440)	—	(1,440)
Net loss	—	—	—	—	—	—	(10,938)	(10,938)
Balances at September 30, 2022	—	$ —	85,230,814	$ 85	$ 623,671	$ 1,613	$ (313,603)	$ 311,766
Balances at June 30, 2021	42,778,408	$ 263,178	25,421,137	$ 25	$ 26,358	$ 4,498	$ (236,201)	$ (205,320)
Stock-based compensation expense	—	—	—	—	3,109	—	—	3,109
Conversion of redeemable convertible preferred stock into Class B common stock in connection with initial public offering	(42,778,408)	(263,178)	42,778,408	43	263,135	—	—	263,178
Issuance of common stock upon initial public offering net of underwriting discounts, commissions and issuance costs	—	—	12,650,000	13	289,307	—	—	289,320
Issuance of common stock upon exercise of warrants	—	—	344,085	1	8,272	—	—	8,273
Common stock issued upon vesting of restricted stock units, net of tax withholding	—	—	179,763	—	(3,528)	—	—	(3,528)
Exercise of common stock options	—	—	328,417	—	718	—	—	718
Unrealized gain on available-for-sale securities	—	—	—	—	—	20	—	20
Foreign currency translation adjustment	—	—	—	—	—	2,804	—	2,804
Net loss	—	—	—	—	—	—	(15,266)	(15,266)
Balances at September 30, 2021	—	$ —	81,701,810	$ 82	$ 587,371	$ 7,322	$ (251,467)	$ 343,308

FORGEROCK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)
(In thousands, except share data)
(Unaudited)

For the Nine Months Ended September 30, 2022 and 2021

	Redeemable convertible preferred stock		Common stock		Additional paid-in capital	Accumulated other comprehensive income	Accumulated deficit	Total stockholders' equity (deficit)
	Shares	Amount	Shares	Amount				
Balances at December 31, 2021	—	$ —	82,648,825	$ 83	$ 593,196	$ 6,672	$ (263,825)	$ 336,126
Stock-based compensation expense	—	—	—	—	22,155	—	—	22,155
Issuance of common stock for stock plans, net	—	—	2,289,458	2	3,946	—	—	3,948
Issuance of common stock under employee stock purchase plan	—	—	292,531	—	4,374	—	—	4,374
Unrealized loss on available-for-sale securities	—	—	—	—	—	(2,174)	—	(2,174)
Foreign currency translation adjustment	—	—	—	—	—	(2,885)	—	(2,885)
Net loss	—	—	—	—	—	—	(49,778)	(49,778)
Balances at September 30, 2022	—	$ —	85,230,814	$ 85	$ 623,671	$ 1,613	$ (313,603)	$ 311,766
Balances at December 31, 2020	40,842,619	$ 231,503	24,185,622	$ 24	$ 20,602	$ 5,253	$ (216,057)	$ (190,178)
Stock-based compensation expense	—	—	—	—	6,396	—	—	6,396
Series E-1 redeemable convertible preferred stock issuance, net of issuance costs	1,935,789	19,951	—	—	—	—	—	—
Reclassification of preferred stock tranche option liability upon issuance of Series E-1 redeemable convertible preferred stock	—	11,724	—	—	—	—	—	—
Conversion of redeemable convertible preferred stock into Class B common stock in connection with initial public offering	(42,778,408)	(263,178)	42,778,408	43	263,135	—	—	263,178
Issuance of common stock upon initial public offering net of underwriting discounts, commissions and issuance costs	—	—	12,650,000	13	289,307	—	—	289,320
Issuance of common stock upon exercise of warrants	—	—	344,085	1	8,272	—	—	8,273
Exercise of common stock options	—	—	1,563,932	1	3,187	—	—	3,188
Common stock issued upon vesting of restricted stock units, net of tax withholding	—	—	179,763	—	(3,528)	—	—	(3,528)
Unrealized loss on available-for-sale securities	—	—	—	—	—	24	—	24
Foreign currency translation adjustment	—	—	—	—	—	2,045	—	2,045
Net loss	—	—	—	—	—	—	(35,410)	(35,410)
Balances at September 30, 2021	—	$ —	81,701,810	$ 82	$ 587,371	$ 7,322	$ (251,467)	$ 343,308

See accompanying notes to condensed consolidated financial statements

FORGEROCK, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
Operating activities:		
Net loss	$ (49,778)	$ (35,410)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	812	795
Noncash operating lease expense	1,865	1,186
Stock-based compensation expense	22,155	6,396
Amortization of deferred commissions	10,652	10,436
Foreign currency remeasurement (loss) gain	(3,636)	1,972
Change in fair value of redeemable convertible preferred stock warrant liability	—	5,871
Change in fair value of preferred stock tranche option liability	—	4,157
Amortization of premium / discount on short-term investments	1,690	608
Other	28	157
Changes in operating assets and liabilities:		
Deferred commissions	(13,182)	(14,366)
Accounts receivable	22,094	(2,170)
Contract and other non-current assets	(3,416)	(13,500)
Prepaid expenses and other current assets	(3,291)	(3,696)
Operating lease liabilities	(1,301)	(1,614)
Accounts payable	(506)	272
Accrued expenses and other liabilities	509	3,244
Deferred revenue	(15,699)	4,306
Net cash used in operating activities	(31,004)	(31,356)
Investing activities:		
Purchases of property and equipment	(1,474)	(459)
Purchases of short-term investments	(139,149)	(201,415)
Maturities of short-term investments	133,615	—
Sales of short-term investments	39,110	19,960
Net cash provided by (used in) investing activities	32,102	(181,914)
Financing activities:		
Proceeds from initial public offering, net of underwriting discounts and commissions	—	295,694
Payment of offering costs	(145)	(4,076)
Proceeds from exercises of employee stock options	4,150	3,189
Proceeds from issuance of common stock under employee stock purchase plan	4,374	—
Employee payroll taxes paid for net shares settlement of restricted stock units	(188)	(3,528)
Proceeds from issuance of redeemable convertible preferred stock	—	19,951
Principal repayments on debt	—	(120)
Net cash provided by financing activities	8,191	311,110
Effect of exchange rates on cash and cash equivalents and restricted cash	857	(638)
Net increase in cash, cash equivalents and restricted cash	10,146	97,202
Cash, cash equivalents and restricted cash, beginning of year	128,437	100,042
Cash, cash equivalents and restricted cash, end of period	$ 138,583	$ 197,244
Supplementary cash flow disclosure:		
Cash paid for interest	$ 2,426	$ 2,536
Reconciliation of cash and cash equivalents and restricted cash:		
Cash and cash equivalents	$ 138,542	$ 197,221
Restricted cash included in prepaids and other current assets	41	23
Total cash and cash equivalents and restricted cash	$ 138,583	$ 197,244
Short-term investments, end of period	$ 203,971	$ 180,872

See accompanying notes to condensed consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Overview and Basis of Presentation

Company and Background

ForgeRock, Inc. (“ForgeRock”, the “Company”, “we” or “us”) is a modern digital identity platform transforming the way enterprises secure, manage, and govern the identities of customers, employees and partners, APIs, microservices, devices, and Internet of Things (“IoT”). Organizations adopt the ForgeRock Identity Platform as their digital identity system of record to enhance data security and sovereignty as well as improve performance. ForgeRock’s identity platform provides a full suite of identity management, access management, identity governance, and artificial intelligence (“AI”)-powered autonomous identity solutions. The Company is headquartered in San Francisco, California and has operations in Canada and the United States of America (collectively referred to as Americas), France, Germany, Norway and the United Kingdom (collectively referred to as EMEA), Australia, New Zealand and Singapore (collectively referred to as APAC). The Company was formed in Norway in 2009 and incorporated in Delaware in February 2012.

Basis of Presentation and Principles of Consolidation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and applicable rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. The accompanying interim condensed consolidated financial statements include the accounts of ForgeRock and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

Unaudited Interim Condensed Consolidated Financial Information

The accompanying interim condensed consolidated balance sheet as of September 30, 2022, the condensed consolidated statements of operations, comprehensive loss, and redeemable convertible preferred stock and stockholders’ equity (deficit) for the three and nine months ended September 30, 2022 and 2021 and the interim condensed consolidated statements of cash flows for the nine months ended September 30, 2022 and 2021 and the related footnote disclosures are unaudited. These interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2021, included in the Company’s Annual Report on Form 10-K on file with the SEC (“Annual Report”).

The interim condensed consolidated financial statements are presented in accordance with the rules and regulations of the SEC and do not include all disclosures normally required in annual consolidated financial statements prepared in accordance with U.S. GAAP. The condensed consolidated balance sheet as of December 31, 2021 included herein was derived from the audited financial statements as of that date. In management’s opinion, the unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and include all adjustments (consisting only of normal recurring adjustments) that are necessary to state fairly the consolidated financial position of the Company as of September 30, 2022, the results of operations for the three and nine months ended September 30, 2022 and 2021 and cash flows for the nine months ended September 30, 2022 and 2021. The results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022 or for any future period.

Use of Estimates

The Company’s condensed consolidated financial statements are prepared in accordance with U.S. GAAP as set forth in the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”). These accounting principles require us to make certain estimates and assumptions. The significant estimates and assumptions include but are not limited to (i) standalone selling price (“SSP”) in revenue recognition, (ii) valuation allowance on deferred taxes, (iii) valuation of stock-based compensation and (iv) valuation of the Company’s common stock prior to the Company’s initial public offering of common stock (IPO) in September 2021. Management evaluates these estimates and assumptions on an ongoing basis and makes estimates based on historical experience and various other assumptions that are believed to be reasonable. However, because future events and their effects cannot be determined with certainty, actual results may differ from these assumptions and estimates, and such differences could be material.

The COVID-19 pandemic has resulted in a sustained global slowdown of economic activity that has decreased demand for certain goods and services, including possibly from the Company's customers. While we have not experienced significant disruptions from the COVID-19 pandemic, we are unable to accurately predict the extent to which the ongoing COVID-19 pandemic may impact our business, results of operations and financial condition going forward. Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. If the pandemic or its impact changes, the Company's judgments or estimates will also change, and those changes could materially impact the Company's condensed consolidated financial statements.

2. Summary of Significant Accounting Policies

Except for the policies updated below, including the accounting policies for credit losses and income taxes that were updated below as a result of the Company adopting the FASB Accounting Standards Updates ("ASU") 2016-13, Financial Instruments—Credit Losses ("Topic 326") and ASU 2019-12, Income Taxes (Topic "740"): Simplifying the Accounting for Income Taxes, respectively, on January 1, 2022, there have been no significant changes from the significant accounting policies disclosed in "Note 2 — Summary of Significant Accounting Policies" to the consolidated financial statements included in Part II, Item 8 of the Annual Report.

Cash Equivalents

Cash consists primarily of cash on deposit with banks. Cash equivalents include highly liquid investments purchased with an original maturity date of 90 days or less from the date of purchase.

The Company monitors its credit risk by considering factors such as historical experience, credit ratings, current economic conditions, and reasonable and supportable forecasts.

Short-term Investments

Short-term investments consist primarily of money market funds, U.S. treasury bonds, commercial paper, corporate debt and asset-backed securities. The Company's policy generally requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss. The Company classifies its short-term investments as available-for-sale securities at the time of purchase and reevaluates such classification at each balance sheet date. The Company has classified its investments as current based on the nature of the investments and their availability for use in current operations.

Available-for-sale debt securities are recorded at fair value each reporting period. Unrealized gains and losses on these investments are reported as a separate component of accumulated other comprehensive income in the condensed consolidated balance sheets until realized. Unrealized gains and losses for any short-term investments that management intends to sell or it is more likely than not that management will be required to sell prior to their anticipated recovery are recorded in other income (expense), net. The Company segments its portfolio based on the underlying risk profiles of the securities and has a zero-loss expectation for U.S. treasury and U.S. government agency securities. The Company regularly reviews the securities in an unrealized loss position and evaluates the current expected credit loss by considering factors such as credit ratings, issuer-specific factors, current economic conditions, and reasonable and supportable forecasts. The Company did not record any material credit losses during the three and nine months ended September 30, 2022. As of September 30, 2022 and December 31, 2021, no allowance for credit losses in short-term investments was recorded.

Interest income is reported within Other, net in the condensed consolidated statements of operations. Realized gains and losses are determined based on the specific identification method and are reported in Other, net in the consolidated statements of operations.

Accounts Receivable, Contract Assets and Allowances

Accounts receivable are recorded at the invoiced amount, net of allowances for expected credit losses. Effective January 1, 2022, the Company reports accounts receivable and contract assets net of an allowance for expected credit losses in accordance with Accounting Standards Codification Topic 326, Financial Instruments – Credit Losses ("ASC 326"), while prior period amounts continue to be reported in accordance with previously applicable GAAP. These allowances are based on the Company's assessment of the collectability of accounts by considering the age of each outstanding invoice, the collection history of each customer, and an evaluation of current expected risk of credit loss based on current conditions and reasonable and supportable forecasts of future economic conditions over the life of the receivable. We assess collectability by reviewing accounts receivable on an aggregated basis where similar characteristics exist and on an individual basis when we identify specific customers with known disputes or collectability issues. Amounts deemed uncollectible are recorded as an allowance for expected credit losses in the condensed consolidated balance sheets with an offsetting decrease in deferred revenue or a charge to sales and marketing expense in the condensed consolidated statements of operations.

Collaborative Arrangements

The Company has entered into collaborative arrangements withtwo partners in order to develop future versions of and enhance the features and functionality of its identity software and SaaS services. These arrangements have been determined to be within the scope of ASC 808, *Collaborative Arrangements*, as the parties are active participants and exposed to the risks and rewards of the collaborative activity. These arrangements also include research, development and commercial activities. The terms of the Company's collaborative arrangements include (i) revenue on sales of licensed products, (ii) royalties on net sales of licensed products and (iii) reimbursements for research and development expenses. In the three months ended September 30, 2022 and 2021, the Company recognized revenue of $1.3 million and $1.3 million and royalty expenses of $0.2 million and $0.1 million related to collaborative arrangements, respectively. In the nine months ended September 30, 2022 and 2021, the Company recognized revenue of $3.9 million and $3.5 million and royalty expenses of $0.8 million and $0.6 million related to collaborative arrangements, respectively.

JOBS Act Accounting Election

As an emerging growth company ("EGC"), the Jumpstart Our Business Startups Act ("JOBS Act") allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are applicable to private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). The Company has elected to use this extended transition period under the JOBS Act until such time as the Company is no longer considered to be an EGC or affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. Effective December 31, 2022, the Company will no longer meet the definition of an EGC. Accordingly, as of December 31, 2022, the Company will be required to comply with the effective accounting standards applicable to public companies, which the Company is currently evaluating.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update (ASU) 2016-13, Financial Instruments—Credit Losses (Topic 326) ("ASU 2016-13"), which changes the existing incurred loss impairment model for financial assets held at amortized cost. The new model uses a forward-looking expected loss method to calculate credit loss estimates. ASU 2016-13 also modified the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes will result in earlier recognition of credit losses. In February 2020, the FASB issued ASU No. 2020-02, Financial Instruments – Credit Losses (Topic 326), which amends the effective date of the original pronouncement for smaller reporting companies. ASU 2016-13 and its amendments are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, though early adoption is permitted. The Company adopted the requirements of ASU 2016-13 as of January 1, 2022 on a modified retrospective basis. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

In December 2019, the FASB issued ASU No 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"). ASU 2019-12 removes certain exceptions to the general principles in Topic 740. ASU 2019-12 is effective for fiscal years beginning January 1, 2022, with early adoption permitted. The Company adopted ASU 2019-12 on January 1, 2022. The adoption of this standard did not have a material impact on the Company's condensed consolidated financial statements.

3. Segment and Revenue Disclosures

Segment Reporting:

The Company operates in a single operating segment. An operating segment is defined as a component of an enterprise for which discrete financial information is available and is regularly reviewed by the chief operating decision maker (CODM). The Company's CODM is its Chief Executive Officer as he is responsible for making decisions regarding resource allocation and assessing the Company's performance.

Revenue by geographic region is based on the delivery address of the customer and is summarized in the below table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Americas	$ 34,102	$ 21,123	$ 84,970	$ 66,689
EMEA	17,053	16,194	50,842	45,084
APAC	7,065	6,909	18,177	17,256
Total Revenue	$ 58,220	$ 44,226	$ 153,989	$ 129,029

The Company's revenue from the United States was $29.0 million and $74.6 million for the three and nine months ended September 30, 2022, respectively. The Company's revenue from the United States was $18.8 million and $61.1 million for the three and nine months ended September 30, 2021, respectively. The Company's revenue from the United Kingdom did not exceed 10% of the Company's total revenue for the three and nine months ended September 30, 2022; the Company's revenue from the United Kingdom was $5.0 million for the three months ended September 30, 2021. The Company's revenue from the United Kingdom did not exceed 10% of the Company's total revenue for the nine months ended September 30, 2021. No other individual country exceeded 10% of the Company's total quarterly revenue during the periods presented.

Disaggregation of Revenue

The principal category the Company uses to disaggregate revenues is the nature of the Company's products and services as presented in the condensed consolidated statements of operations, the total of which is reconciled to the condensed consolidated revenue from the Company's single reportable segment. In the following table, revenue is presented by software license and service categories (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue:				
Multi-year term licenses	$ 16,569	$ 10,222	$ 34,083	$ 37,834
1-year term licenses	7,335	9,142	25,006	25,115
Total subscription term licenses	23,904	19,364	59,089	62,949
Subscription SaaS, support and maintenance	31,282	22,940	87,029	61,543
Perpetual licenses	91	183	197	885
Total subscriptions and perpetual licenses	55,277	42,487	146,315	125,377
Professional services	2,943	1,739	7,674	3,652
Total Revenue	$ 58,220	$ 44,226	$ 153,989	$ 129,029

Contract Assets and Deferred Revenue

Contract assets and deferred revenue from contracts with customers were as follows (in thousands):

	September 30, 2022	December 31, 2021
Contract assets	$ 23,212	$ 20,508
Deferred revenue	59,300	75,394

Generally, the Company invoices its customers at the time a customer enters into a binding contract. However, the Company may offer invoicing and payment installments for certain multi-year arrangements. In these instances, timing of revenue recognition may differ from the timing of invoicing to customers. Contract assets are recorded when revenue is recognized prior to invoicing. Contract assets are transferred to accounts receivable upon customer invoicing. Beginning of the period contract asset amounts transferred to accounts receivable during the period were $3.1 million and $3.1 million for the three months ended September 30, 2022 and 2021, respectively and $16.2 million and $8.0 million for the nine months ended September 30, 2022 and 2021, respectively.

Deferred revenue is recorded when invoicing occurs before revenue is recognized. Deferred revenue recognized that was included in the deferred revenue balance at the beginning of the period was $30.2 million and $24.2 million for the three months ended September 30, 2022 and 2021, respectively and $59.9 million and $45.5 million for the nine months ended September 30, 2022 and 2021, respectively.

Remaining Performance Obligations

Remaining performance obligations ("RPO") represents transaction price allocated to still unsatisfied or partially satisfied performance obligations. Those obligations are recorded as deferred revenue or contractually stated or committed orders under multi-year billing plans for subscription and perpetual licenses, Software as a Service and support and maintenance contracts for which the associated deferred revenue has not yet been recorded.

As of September 30, 2022, total remaining non-cancellable performance obligations under the Company's subscriptions and perpetual license contracts with customers was approximately $176.9 million. Of this amount, the Company expects to recognize revenue of approximately $103.0 million, or 58%, over the next 12 months, with the balance to be recognized as revenue thereafter.

The Company excludes the transaction price allocated to RPOs that have original expected durations of one year or less such as professional services and training.

Contract Costs

The following table summarizes the account activity of deferred commissions for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Beginning balance	$ 24,784	$ 17,055	$ 24,058	$ 14,748
Additions to deferred commissions	5,254	4,656	13,182	14,197
Amortization of deferred commissions	(3,450)	(3,202)	(10,652)	(10,436)
Ending balance	$ 26,588	$ 18,509	$ 26,588	$ 18,509

	September 30, 2022	December 31, 2021
Deferred commissions, current	$ 8,697	$ 8,457
Deferred commissions, non-current	17,891	15,601
Total deferred commissions	$ 26,588	$ 24,058

Concentrations of Credit Risk, Significant Customers and Third Party Hosted Services

Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable. Cash and cash equivalents and short-term investments are currently held in two financial institutions and, at times, may exceed federally insured limits.

Major Customers

As of September 30, 2022 and December 31, 2021 no single customer represented greater than 10% of accounts receivable.The Company does not require collateral to secure trade receivable balances. For the three and nine months ended September 30, 2022 and 2021, no single customer represented greater than 10% of revenue.

Third Party Hosted Services

The Company relies on the technology, infrastructure, and software applications, including software-as-a-service offerings, of third parties in order to host or operate certain key products and functions of its business.

4. Fair Value Measurements

ASC 820, Fair Value Measurements ("ASC 820"), defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs.

The standard describes a fair value hierarchy based on the following three levels of inputs that may be used to measure fair value, of which the first two are considered observable and the last unobservable:

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table represents the fair value hierarchy for the Company's financial assets and liabilities held by value on a recurring basis (in thousands):

	September 30, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ 107,201	$ —	$ —	$ 107,201
Total cash equivalents	107,201	—	—	107,201
Commercial paper	—	27,049	—	27,049
Asset-backed securities	—	17,367	—	17,367
Corporate debt securities	—	91,543	—	91,543
U.S. treasury bonds	—	68,012	—	68,012
Total short-term investments	—	203,971	—	203,971
Total cash equivalents and short-term investments	$ 107,201	$ 203,971	$ —	$ 311,172

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds	$ 98,333	$ —	$ —	$ 98,333
Total cash equivalents	98,333	—	—	98,333
Commercial paper	—	78,448	—	78,448
Asset-backed securities	—	51,587	—	51,587
Corporate debt securities	—	85,084	—	85,084
U.S. treasury bonds	—	26,292	—	26,292
Total short-term investments	—	241,411	—	241,411
Total cash equivalents and short-term investments	$ 98,333	$ 241,411	$ —	$ 339,744

All of the Company's money market funds are classified as Level 1 in the fair value hierarchy as the valuation is based on observable inputs that reflect quoted prices for identical assets or liabilities in active markets. For certain of the Company's financial instruments, including cash held in banks, accounts receivable, accounts payable and accrued expense, the carrying amounts approximate fair value due to their short maturities, and are, therefore, excluded from the fair value tables above.

5. Cash Equivalents and Short-term Investments

The amortized cost, unrealized loss and estimated fair value of the Company's cash equivalents and short-term investments as of September 30, 2022 and December 31, 2021 were as follows (in thousands):

	September 30, 2022			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Cash Equivalents:				
Money market funds	$ 107,201	$ —	$ —	$ 107,201
Total cash equivalents	107,201	—	—	107,201
Short-term investments				
Commercial paper	27,049	—	—	27,049
Asset-backed securities	17,840	—	(473)	17,367
Corporate debt securities	92,796	—	(1,253)	91,543
U.S. Treasury bonds	69,053	—	(1,041)	68,012
Short-term investments	206,738	—	(2,767)	203,971
Total	$ 313,939	$ —	$ (2,767)	$ 311,172

	December 31, 2021			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Cash Equivalents:				
Money market funds	$ 98,333	$ —	$ —	$ 98,333
Total cash equivalents	98,333	—	—	98,333
Short-term investments				
Commercial paper	78,448	—	—	78,448
Asset-backed securities	51,745	—	(158)	51,587
Corporate debt securities	85,365	—	(281)	85,084
U.S. treasury bonds	26,444	—	(152)	26,292
Short-term investments	242,002	—	(591)	241,411
Total	$ 340,335	$ —	$ (591)	$ 339,744

All short-term investments were designated as available-for-sale securities as of September 30, 2022 and December 31, 2021.

The following table presents the contractual maturities of the Company's short-term investments as of September 30, 2022 and December 31, 2021 (in thousands):

	September 30, 2022	
	Amortized Cost	Estimated Fair Value
Due within one year	$ 196,294	$ 193,546
Due between one to five years	10,444	10,425
Total	$ 206,738	$ 203,971

	December 31, 2021	
	Amortized Cost	Estimated Fair Value
Due within one year	$ 142,950	$ 142,868
Due between one to five years	99,052	98,543
Total	$ 242,002	$ 241,411

As of September 30, 2022, the Company did not have any unsettled purchases or unsettled maturities of short-term investments.The following table presents the breakdown of the short-term investments that have been in a continuous unrealized loss position aggregated by investment category, as of September 30, 2022.

	September 30, 2022					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Cash Equivalents:						
Money market funds	$ 107,201	$ —	$ —	$ —	$ 107,201 —	$ —
Total cash equivalents	107,201	—	—	—	107,201	—
Short-term investments						
Commercial paper	27,049	—	—	—	27,049	—
Asset-backed securities	10,123	(181)	7,244	(292)	17,367	(473)
Corporate debt securities	76,632	(881)	14,911	(372)	91,543	(1,253)
U.S. Treasury bonds	68,012	(1,041)	—	—	68,012	(1,041)
Short-term investments	181,816	(2,103)	22,155	(664)	203,971	(2,767)
Total	$ 289,017	$ (2,103)	$ 22,155	$ (664)	$ 311,172	$ (2,767)

The Company had short-term investments with a market value of $164.7 million and $163.0 million in unrealized loss positions as of September 30, 2022 and December 31, 2021, respectively. The Company has not incurred unrealized losses for greater than 12 months on its short-term investments as of December 31, 2021. Gross unrealized losses from available-for-sale securities were $2.8 million and $0.6 million as of September 30, 2022 and December 31, 2021, from 33 and 38 investment positions, respectively. There were no realized gains or losses from available-for-sale securities that were reclassified out of accumulated other comprehensive income for the three and nine months ended September 30, 2022 and September 30, 2021.

For available-for-sale debt securities that have unrealized losses, the Company evaluates whether (i) the Company has the intention to sell any of these investments, (ii) it is not more likely than not that the Company will be required to sell any of these available-for-sale debt securities before recovery of the entire amortized cost basis and (iii) the decline in the fair value of the investment is due to credit or non-credit related factors. The credit ratings associated with the corporate notes and obligations are mostly unchanged, are highly rated and the issuers continue to make timely principal and interest payments. Based on this evaluation, the Company determined that for short-term investments, there were no material credit or non-credit related impairments as of September 30, 2022 and December 31, 2021.

6. Leases

The Company primarily has operating leases for office space. The leases expire on various dates between 2022 and 2029, some of which could include options to extend the lease. Options to extend the lease term are included in the lease term when it is reasonably certain that ForgeRock will exercise the extension option. Leases with a term of one year or less are not recognized on the Company's condensed consolidated balance sheets, while the associated lease payments are recorded in the condensed consolidated statements of operations on a straight-line basis over the lease term. The Company's leases do not contain material variable rent payments, residual value guarantees, covenants or other restrictions.

The following table summarizes the components of lease expense, which are included in operating expenses in the Company's condensed statements of operations and comprehensive loss (in thousands):

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Operating lease expense	$ 673	$ 2,045
Variable lease expense	144	483
Total lease expense	$ 817	$ 2,528

Variable lease payments include amounts relating to common area maintenance, real estate taxes and insurance and are recognized in the condensed consolidated statements of operations and comprehensive loss as incurred.

The following table summarizes supplemental information related to leases:

	Nine Months Ended September 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases (in thousands)	$ 1,162
Weighted-average remaining lease term (years)	
Operating leases	6.3
Weighted-average discount rate	
Operating leases	5.3 %

The following table summarizes the maturities of lease liabilities as of September 30, 2022 (in thousands):

2022 (3 months remaining)	$ 727
2023	2,218
2024	2,100
2025	1,877
2026	1,734
Thereafter	4,779
Total future minimum lease payments	13,435
Less: Imputed interest	(2,354)
Present value of future minimum lease payments	11,081
Less: Current portion of operating lease liability	(1,562)
Non-current portion of operating lease liability	$ 9,519

7. Debt

The following table presents total debt outstanding (in thousands, except interest rates):

	September 30, 2022		December 31, 2021	
	Amount	Interest Rate	Amount	Interest Rate
$10.0 million March 2019	$ 10,000	8.00 %	$ 10,000	8.00 %
$10.0 million September 2019	10,000	8.00 %	10,000	8.00 %
$10.0 million December 2019	10,000	8.00 %	10,000	8.00 %
$10.0 million March 2020	10,000	8.00 %	10,000	8.00 %
Less: debt discount	(421)		(517)	
Total debt, net of debt discount	39,579		39,483	
Less: current portion	—		—	
Total long-term debt	$ 39,579		$ 39,483	

In September 2021, the Company executed an amendment to the Amended Restated Plain English Growth Capital Loan and Security Agreement with TriplePoint Venture Growth BDC Corp. ("TriplePoint") and TriplePoint Capital LLC (the "A&R Loan Agreement"), which amends and restates the Loan and Security Agreement entered into in March 2016 with TriplePoint. The payments on all cash advances are interest only. The A&R Loan Agreement became effective once the registration statement in connection with the initial public offering was declared effective on September 16, 2021. The key provisions of the amendment include: (1) a covenant requiring the maintenance of a $20.0 million cash balance when an event of default exits, (2) change in the interest rate for outstanding term loan to be eight percent (8.00%) per annum on the existing loans, (3) extension of the maturity dates by twenty-four months, (4) change in the prepayment penalties and (5) and a change in the prepayment premium. The principal will be due at the end of the term of the respective advance. The A&R Loan Agreement is secured by substantially all the Company's assets, excluding its intellectual property, which was subject to a negative pledge. The A&R Loan Agreement contains customary representations and warranties and customary affirmative and negative covenants applicable to the Company, including, among other things, restrictions on indebtedness, liens, investments, dividends and other distributions.

The A&R Loan Agreement was accounted for as a modification and not an extinguishment as the terms of the Company's outstanding debt were not substantially different from the original terms. The Company amortizes the debt issuance costs as interest expense using the effective interest method over the remaining term of the loan.

As of September 30, 2022 and December 31, 2021, accrued interest for the end-of term payments was $1.9 million and $1.6 million, respectively. The annualized effective interest rate on debt was 9.0% and 10.8% for the nine months ended September 30, 2022 and year ended December 31, 2021, respectively. As of September 30, 2022, the Company was in compliance with the covenants set forth in the A&R Loan Agreement.

Future principal payments on outstanding borrowings as of September 30, 2022 are as follows:

Years ending:		
2022 (3 months remaining)	$	—
2023		—
2024		—
2025		30,000
2026		10,000
Total	$	40,000

8. Commitments and Contingencies

Letters of Credit

As of September 30, 2022 and December 31, 2021, the Company had outstanding letters of credit under an office lease agreement that totaled $0.6 million, which primarily guaranteed early termination fees in the event of default. The letters of credit are not collateralized.

Purchase Commitments

In the ordinary course of business, the Company enters into various purchase commitments primarily related to third-party cloud hosting and data services, information technology operations and marketing events. Total noncancellable purchase commitments as of September 30, 2022 were approximately $51.5 million as follows:

2022	$	3,918
2023		22,571
2024		25,000
	$	51,489

Acquisition-Related Costs and Contingencies

The completion of the Merger with Thoma Bravo remains subject to customary closing conditions. As part of the Merger, the Company has incurred $2.4 million in Merger-related expenses through September 30, 2022 and expects to incur additional costs through the closing of the transaction, including approximately $34.2 million that are primarily contingent on the consummation of the Merger. These liabilities include banker fees, legal fees and other third-party professional fees. Refer to Footnote 15 - Subsequent Events for further discussion around the Merger.

Employee Benefit Plans

The Company has a 401(k) Savings Plan ("the 401(k) Plan") which qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. The 401(k) Plan and other pension plans outside the United States that the Company provides or is mandated to provide are all defined contribution plans. During the three months ended September 30, 2022 and 2021, the Company's 401(k) and other pension plan contributions were $0.9 million and $0.9 million, respectively. During the nine months ended September 30, 2022 and 2021, the Company's 401(k) and other pension plan contributions were $3.1 million and $2.7 million, respectively.

Warranties and Guarantees

The Company's software and software-as-a-service offerings are generally warrantied to perform materially in accordance with the Company's documentation under normal use and circumstances. To date, the Company has not incurred significant costs and has not accrued a liability in the accompanying condensed consolidated financial statements as a result of these obligations.

The Company has entered into service-level agreements with a majority of its customers defining levels of support response times and SaaS uptimes, as applicable. In a very small percentage of the Company's arrangements, the Company allows customers to terminate their agreements if the Company fails to meet those levels. In such instances, the customer would be entitled to a refund of prepaid unused subscription or support and maintenance fees. To date, the Company has not experienced any significant failures to meet defined support response times or SaaS uptimes pursuant to those agreements and has not accrued any liabilities related to these agreements in the condensed consolidated financial statements.

The Company has not been obligated to make any payments for contingent indemnification obligations in respect to third-party claims, and no liabilities have been recorded for these obligations as of September 30, 2022 and December 31, 2021.

Legal Matters

From time to time, the Company may be a party to various legal proceedings and claims that arise in the ordinary course of business. The Company makes a provision for a liability relating to legal matters when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company maintains insurance to cover certain actions and believes that resolution of such claims, charges, or litigation will not have a material impact on the Company's financial position, results of operations, or liquidity.

9. Income Taxes

For the three months ended September 30, 2022 and 2021, the Company recorded a tax provision of $0.2 million and $0.2 million, respectively. For the nine months ended September 30, 2022 and 2021, the Company recorded a tax provision of $1.1 million and $0.7 million, respectively. The effective tax rate differs from the U.S. federal statutory income tax rate of 21% primarily as a result of not recognizing deferred tax assets for domestic and certain foreign jurisdictions due to a full valuation allowance against deferred tax assets.

10. Stock-based Compensation

A summary of the Company's stock-based compensation expense as recognized on the condensed consolidated statements of operations is presented in thousands below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	**2021**	**2022**	**2021**
Cost of revenue	$ 657	$ 26	$ 1,789	$ 193
Research and development	1,632	564	4,685	1,058
Sales and marketing	2,798	1,078	7,859	2,046
General and administrative	2,638	1,441	7,822	3,099
Total stock-based compensation expense	$ 7,725	$ 3,109	$ 22,155	$ 6,396

2021 Equity Incentive Plan

In September 2021, the Company's board of directors adopted the Company's 2021 Equity Incentive Plan (the "2021 Plan") as a successor to the 2012 Equity Incentive Plan (the "2012 Plan") with the purpose of granting stock-based awards to employees, directors, officers and consultants such as stock options, restricted stock awards and restricted stock units ("RSUs"). The Company's compensation committee administers the 2021 Plan. A total of 7,276,000 shares of Class A common stock were initially available for issuance under the 2021 Plan. In addition, the shares reserved for issuance under the 2021 Plan include a number of shares of Class A common stock equal to the number of shares of Class B common stock subject to awards granted under the 2012 Plan that, on or after the termination of the 2012 Plan, expire or otherwise terminate without having been exercised in full or are forfeited to or repurchased by the Company (provided that the maximum number of shares that may be added to the 2021 Plan pursuant to the terms described in this sentence is 14,913,309 shares). The number of shares of the Company's Class A common stock available for issuance under the 2021 Plan is subject to an annual increase on the first day of each fiscal year beginning on January 1, 2022, equal to the lesser of: (i) 8,085,000 shares; (ii) 5% of the outstanding shares of all classes of the Company's common stock as of the last day of the immediately preceding year; or (iii) such other amount as the Company's board of directors may determine.

2012 Equity Incentive Plan

The 2012 Plan, which was amended in March 2021, was terminated in September 2021, in connection with the adoption of the 2021 Plan, and stock-based awards are no longer granted under the 2012 Plan. However, the 2012 Plan will continue to govern the terms and conditions of the outstanding awards previously granted thereunder. As of September 30, 2022, the Company has not issued any stock appreciation rights.

2021 Employee Stock Purchase Plan

In September 2021, the Company's board of directors adopted and the stockholders approved the 2021 Employee Stock Purchase Plan (the "2021 ESPP"), which became effective concurrent with the completion of the IPO, and established an initial reserve of 1,617,000 shares of common stock. The 2021 ESPP provides for annual increases in the number of shares available for issuance on the first day of each fiscal year beginning on January 1, 2022, equal to the lesser of: (i) 1,617,000 shares; (ii) 1% of the outstanding shares of all classes of the Company's common stock as of the last day of the immediately preceding year; or (iii) such other amount determined by the plan administrator. As of September 30, 2022, 292,531 shares had been purchased under the 2021 ESPP.

Except for the initial offering period, the ESPP provides for a12-month offering period beginning November 15 and May 15 of each year, and each offering period will consist of two six-month purchase periods. The initial offering period began on October 1, 2021 and will end on November 15, 2022. On each purchase date, eligible employees will purchase the shares at a price per share equal to 85% of the lesser of (1) the fair market value of the Company's common stock on the offering date, or (2) the fair market value of its common stock on the purchase date. If such fair market value decreases from the offering date to the applicable purchase date, the offering period will terminate after the purchase of shares and all participants will be automatically enrolled in the next offering period (a "rollover event"). The initial offering period began on October 1, 2021 and ended on May 15, 2022 after the first purchase was completed as a result of a rollover event.

As per the Agreement and Plan of Merger (the "Merger Agreement") entered on October 10, 2022 (see "Subsequent Events" Footnote 15) the last purchase under the 2021 ESPP will occur on November 15, 2022 and the Company will terminate the 2021 ESPP with no further rights being granted or exercised under the 2021 ESPP thereafter. Refer to Footnote 15 - Subsequent Events for further discussion around the Merger.

Restricted Stock Units

The Company grants RSUs that generally vest over four years for our employees and one to three years for our non-employee directors. The total grant date fair value of RSUs granted during the nine months ended September 30, 2022 was $43.3 million. There were no RSUs granted during the nine months ended September 30, 2021.

A summary of the Company's unvested RSUs and activity for the nine months ended September 30, 2022 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2021	1,702,724	$ 27.49
Granted	2,854,131	15.17
Vested	(35,159)	26.11
Canceled	(284,173)	18.56
Outstanding at September 30, 2022	4,237,523	19.80

As of September 30, 2022, there was $70.1 million of total unrecognized compensation, which will be recognized over the remaining weighted-average vesting period of 3.1 years using the straight-line method.

Stock Options

A summary of the Company's stock option activity and related information for the nine months ended September 30, 2022 is as follows:

	Number of Awards Outstanding	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance at December 31, 2021	14,219,587	$ 5.10	6.4	$ 306,981
Options exercised	(2,249,237)	1.76		
Options forfeited	(303,806)	7.41		
Balance at September 30, 2022	11,666,544	5.69	6.3	109,159
As of September 30, 2022:				
Vested and exercisable	8,853,225	4.31	5.8	92,011

As of September 30, 2022, there was $16.6 million of unrecognized compensation expense related to non-vested stock options granted under the Plan. That expense is expected to be recognized over a weighted-average period of 1.9 years. No stock options were granted during the nine months ended September 30, 2022.

11. Redeemable Convertible Preferred Stock and Related Warrants and Option

Upon the closing of the IPO, all 42,778,408 shares of the Company's then-outstanding redeemable convertible preferred stock, including the option to purchase 1,935,789 shares which was exercised in April 2021, automatically converted on a one-to-one basis to shares of Class B common stock.

Preferred Stock Warrants

On September 24, 2021, after the closing of the IPO, the warrants to purchase 411,624 shares of preferred stock, all related to the Company's debt, were exercised in a cashless exercise for a net amount of 344,085 shares of Class B common stock.

12. Stockholders' Equity

Preferred Stock

In connection with the IPO, the Company amended and restated its certificate of incorporation, which became effective immediately prior to the closing of the Company's offering, which authorized 100,000,000 shares of undesignated preferred stock, with a par value of $0.001. As of September 30, 2022, there were 100,000,000 shares of preferred stock authorized and zero shares of preferred stock outstanding.

Common Stock

The Company has two classes of common stock: Class A common stock and Class B common stock. In connection with the IPO, the Company amended and restated its certificate of incorporation and authorized 1,000,000,000 shares of Class A common stock and 500,000,000 shares of Class B common stock. The shares of Class A common stock and Class B common stock are identical, except with respect to voting rights. Each share of Class A common stock is entitled to one vote. Each share of Class B common stock is entitled to ten votes. Class A and Class B common stock have a par value of $0.001 per share, and are referred to collectively as the Company's common stock throughout the notes to the condensed consolidated financial statements, unless otherwise noted. Holders of common stock are entitled to receive any dividends as may be declared from time to time by the board of directors.

Shares of Class B common stock may be converted to Class A common stock at any time at the option of the stockholder. Shares of Class B common stock automatically convert to Class A common stock at the earlier of (i) the 7th anniversary of the filing and effectiveness of the Company's amended and restated certificate of incorporation in connection with the IPO, (ii) when the outstanding shares of the Company's Class B common stock represent less than 5% of the combined voting power of the Company's Class A common stock and Class B common stock, and (iii) the affirmative vote of the holders of 66 2/3% of the voting power of the Company's outstanding Class B common stock.

Immediately prior to the completion of the IPO, all shares of common stock then outstanding were reclassified into Class B common stock.

13. Net Loss Per Share

Since the Company was in a loss position for the periods presented, basic net loss per share is the same as diluted net loss per share, as the inclusion of all potential common shares outstanding would have been anti-dilutive.

The following outstanding potentially dilutive ordinary shares were excluded from the computation of diluted net loss per share attributable to ordinary stockholders for the periods presented, as their effect would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Stock options	7,946	12,997	8,215	13,050
Restricted stock units	751	268	502	305
Other awards including contingently issuable shares	—	43	—	68
Total anti-dilutive shares	8,697	13,308	8,717	13,423

In the event of liquidation, dissolution, distribution of assets or winding-up of the Company, the holders of all classes of common stock have equal rights to receive all the assets of the Company. We have not presented net loss per share under the two-class method for our Class A common stock and Class B common stock because it would be the same for each class due to equal dividend and liquidation rights for each class.

14. Related Party Transactions

In April 2021, the Company sold an aggregate of 1,935,789 shares of its Series E-1 redeemable convertible preferred stock to a related party investor at a purchase price of $10.3317 per share, for an aggregate purchase price of $20.0 million.

KKR & Co. Inc. ("KKR") is a U.S.-based investment firm. Funds controlled by KKR held approximately5.3% and 7.8% of the Company's capital stock as of September 30, 2022 and September 30, 2021, respectively. KKR has representation on the Company's board of directors. The Company has customer arrangements with multiple KKR affiliates. During the three and nine months ended September 30, 2022, the Company recognized revenue of $0.8 million and $2.6 million with KKR affiliates, respectively. During the three and nine months ended September 30, 2021, the Company recognized revenue of $2.1 million and $3.3 million, respectively. The Company had $1.8 million and $0.1 million in aggregate accounts receivable recorded related to these agreements at September 30, 2022 and September 30, 2021, respectively.

15. Subsequent Events

On October 10, 2022, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Project Fortress Parent, LLC ("Parent") and Project Fortress Merger Sub, Inc. ("Merger Sub"), pursuant to which Merger Sub will merge with and into ForgeRock (the "Merger") and ForgeRock will continue as the surviving corporation in the Merger, as a wholly owned subsidiary of Parent. Parent and Merger Sub are affiliates of Thoma Bravo.

Under the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of the Company's Class A common stock and Class B common stock (except for certain shares specified in the Merger Agreement) will be canceled and automatically converted into the right to receive cash in an amount equal to $23.25 per share, without interest.

Completion of the Merger is subject to the satisfaction of certain terms and conditions set forth in the Merger Agreement, including (i) approval of the Merger Agreement by requisite the affirmative vote of ForgeRock's stockholders holding a majority of the outstanding voting power of ForgeRock's common stock; (ii) the absence of any order issued by any governmental entity of competent jurisdiction or any law applicable to the merger that, in each case, prevents, materially restrains, or materially impairs the consummation of the Merger; (iii) the expiration or termination of the waiting periods applicable to the Merger pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act"), and the absence of any agreement with any governmental authority not to consummate the Merger, and (iv) all consents, approvals and filings required under certain specified foreign direct investment ("FDI") laws shall have been obtained or made, and all waiting periods (including any extensions thereof or any timing agreements with applicable governmental authorities) relating to the execution, delivery and performance of the Merger Agreement and the consummation of the Merger shall have expired or otherwise been terminated under any such law.

The Merger is expected to close in the first half of calendar year 2023. Upon consummation of the Merger, ForgeRock will cease to be a publicly traded company and its Class A common stock will be delisted from the New York Stock Exchange.

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

Note numbers refer to "Notes to Condensed Consolidated Financial Statements" in Item 1. Unaudited Financial Statements.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes to those statements included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report. As discussed in "Cautionary Note Regarding Forward-Looking Statements," in addition to historical financial information, the following discussion and analysis may contain forward-looking statements regarding our proposed acquisition by entities affiliated with Thoma Bravo, our expectations of future performance, liquidity and capital resources, our plans, estimates, beliefs and expectations that involve risks, uncertainties and assumptions. Our actual results and timing of selected events may differ materially from those anticipated or implied in these forward-looking statements as a result of many factors, including those discussed under "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q.

Overview

Our vision is a world where you never log in again.

We help make the digital economy possible. ForgeRock supports billions of identities to help people simply and safely access the connected world—from shopping and banking to accessing company networks to get their work done. We make this possible through a unified and extensive identity platform to enable enterprises to provide exceptional digital user experiences without compromising security and privacy. This allows enterprises to deepen their relationships with customers and increase the productivity of their workforce and partners, while at the same time providing better security and regulatory compliance.

Our platform is purpose-built for the enterprise and provides mission-critical capabilities, including performance and scale, rich identity functionality, deployment flexibility, and extensive integration and interoperability. Our platform includes a full suite of identity functionality across Customer Identity Access Management (CIAM), Access Management (AM), and Identity Governance Administration (IGA) and a differentiated identity object modeling approach that supports all identity types. We enable enterprises to rapidly integrate and secure thousands of applications across types, deployments, and operating environments such as SaaS, mobile, microservices, web, and legacy, running in public and private cloud, and on-premise. Together, these deep capabilities enable us to provide enterprises with a single view of all their identities in one unified platform and position us as a leader in digital identity for the enterprise market.

We Generate Substantially All of Our Revenue From Subscriptions

Our revenue includes recurring revenue from term licenses, SaaS, and maintenance and support (which we refer to collectively as our subscription revenue). We generate substantially all of our revenue from the sale of subscriptions, which accounted for 95% and 96% of our total revenue for the three months ended September 30, 2022 and 2021, respectively. We have significantly reduced our percentage of revenue from perpetual licenses to approximately 0.2% and 0.4% for each of the three months ended September 30, 2022 and 2021. The remainder of our revenue is from professional services, which represented 5% and 4% of our revenue for the three months ended September 30, 2022 and 2021, respectively. We enable our customers to choose how they want to deploy our software in their heterogeneous environments, including self-managed environments such as public and private cloud environments, and through our SaaS offering, ForgeRock Identity Cloud, or a combination of both. Our subscription contracts are typically non-cancelable and non-refundable, and are largely billed annually upfront. Our pricing is generally based on the deployment method (SaaS or self-managed), products purchased, identity type (consumer, workforce, or IoT and services), and number of identities managed.

We Focus on Global Enterprises and Large Organizations, Who are Prioritizing Investments in Identity

Our go-to-market strategy is primarily focused on selling to large global enterprises, who are consistently investing in identity as a top priority. We focus our sales efforts on decision makers with a purview across the enterprise such as Chief Information Officers, or CIOs, Chief Information Security Officers, or CISOs, Chief Digital Officers, or CDOs, and Chief Technology Officers, or CTOs. We are also increasing our focus on line-of-business owners and developers as core stakeholders. We have been operating globally since our founding and 41% of our revenue in the three months ended September 30, 2022 was generated from customers located in Europe, the Middle East and Africa, or EMEA, and the Asia-Pacific, or APAC, region, demonstrating the global demand for our offerings. Our customers are based in more than 50 countries and across a diverse set of industries such as financial services, public sector, technology, telecom and media, medical, services, retail, and manufacturing. Many of our customers are recognized as leaders in their respective industries or public sectors.

Our Go-to-Market Strategy is Driven by Close Collaboration Between Our Sales and Marketing Organizations and Our Partners

We primarily sell subscriptions through our direct sales teams located in geographic regions near our customers. Our sales and marketing organizations work closely to attract and drive awareness and engagement with prospective customers to help them understand our leadership in identity and our product differentiation, and to convert prospects into customers. Our marketing organization engages with prospective customers across physical and digital channels and provides them with solution guides, whitepapers, webinars, presentations, and other content to accelerate their understanding of our platform and drive greater adoption. We are highly focused on embracing and supporting our customers with the implementation of and utilization of our platform through dedicated customer success managers.

We also have a strong network of strategic global channel partners that both source and influence opportunities for us —providing leverage and execution capabilities across the globe. These strategic global channel partnerships not only provide us with a significant source of lead generation but also a global network of certified and trained implementation professionals. Our alliances, including global strategic consulting firms and global systems integrators, or GSIs, such as Accenture, Deloitte, and PwC, often promote our platform as part of large-scale digital transformation projects they drive by identifying opportunities in which our platform can help accelerate business initiatives and improve user experience. We also partner with leading regional consulting firms and implementation partners. These highly-skilled regional partners not only provide subject-matter expertise in the implementation of specific use cases, but they also act as an extension of our direct sales force by identifying and referring opportunities to us.

Our Customer Base Includes Many of the World's Leading Brands

Our global customer base includes direct and indirect customers, of which direct customers are those we contract with directly (whether sourced by us or through a partner or reseller), and indirect customers include customers that receive the benefit of using components of our software by contracting with certain third parties, such as resellers, system integrators, managed service providers, or other channel partners, as well as with original equipment manufacturers, or OEMs.

We focus on the number of large customers because it represents our ability to land-and-expand with large enterprises and the number of large customers is a key indicator of our ability to grow our business and revenue in future periods. We define a large customer as a customer with $100,000 or greater ARR as of a measurement date. As of September 30, 2022 and 2021, we had 431 and 369 large customers with $100,000 of ARR or greater, respectively, representing 92% and 89% of our total ARR as of such dates. For the three months ended September 30, 2022, no single customer accounted for more than 10% of our total revenue or 4% of our total ARR. For the three months ended September 30, 2021, no single customer accounted for more than 10% of our total revenue or 3% of our total ARR.

We Have a Robust Land & Expand Model Enabled in Part by Our Flexible Purchasing Options

The breadth of our platform enables many entry points for new customers, and we enable them to purchase one or more product modules for their initial deployment and expand into new modules for additional functionality over time. We believe there is a significant opportunity for revenue expansion across our customer base as our customers increase the number of identities managed through our platform, expand across consumer, workforce and IoT and services use cases, subscribe to additional product offerings, and expand into additional deployments, such as our SaaS offering.

Our Business Has Experienced Strong Growth

We have experienced strong growth from a combination of internal drivers and external drivers. Internal drivers include the continuous innovation of our platform, resulting in new technology, products and deployment offerings, a loyal customer base that continues to increase their spend with us over time, and the acquisition of new customers. For example, we have developed and released our SaaS offering (ForgeRock Identity Cloud), Autonomous Identity and Governance in the past two years and both new and existing customers have adopted these offerings. Our effective go-to-market model has also been a driver of our growth, aided by recent leadership recognition by industry analysts. We believe external drivers such as the increasing importance of identity to enterprises, identity being a key enabler of digital transformation, the growing cyber threat landscape and constantly evolving regulatory and compliance requirements are also driving our growth.

For the three months ended September 30, 2022 and 2021, our ARR was $212.8 million and $164.0 million, respectively, representing a year-over-year growth rate of 30%. We generate substantially all of our revenue from subscriptions, with 95% and 96% of our total revenue coming from subscriptions for the three months ended September 30, 2022 and 2021, respectively. For the three months ended September 30, 2022 and 2021 our total revenue was $58.2 million and $44.2 million, respectively, representing a year-over-year change of 32%. In the same periods, we incurred net losses of $10.9 million and $15.3 million, respectively.

Pending Merger

On October 10, 2022, we entered into the Merger Agreement with Parent and Merger Sub, pursuant to which Merger Sub will merge with and into ForgeRock and ForgeRock will continue as the surviving corporation in the Merger, as a wholly owned subsidiary of Parent. Parent and Merger Sub are affiliates of Thoma Bravo.

Under the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of our Class A common stock and Class B common stock (except for certain shares specified in the Merger Agreement) will be canceled and automatically converted into the right to receive cash in an amount equal to $23.25 per share, without interest.

Completion of the Merger is subject to the satisfaction of certain terms and conditions set forth in the Merger Agreement, including (i) approval of the Merger Agreement by the requisite affirmative vote of ForgeRock's stockholders holding a majority of the outstanding voting power of ForgeRock's common stock; (ii) the absence of any order issued by any governmental entity of competent jurisdiction or any law applicable to the merger that, in each case, prevents, materially restrains, or materially impairs the consummation of the Merger; (iii) the expiration or termination of the waiting periods applicable to the Merger pursuant to the HSR Act, and the absence of any agreement with any governmental authority not to consummate the Merger, and (iv) all consents, approvals and filings required under certain specified FDI laws shall have been obtained or made, and all waiting periods (including any extensions thereof or any timing agreements with applicable governmental authorities) relating to the execution, delivery and performance of the Merger Agreement and the consummation of the Merger shall have expired or otherwise been terminated under any such law.

We also agreed to file with the Securities and Exchange Commission (the "SEC") a preliminary proxy statement to be sent to our stockholders in connection with the Merger Agreement promptly after the date of the Merger Agreement, and we will convene and hold a special meeting of ForgeRock's stockholders for the purpose of seeking the adoption of the Merger Agreement as promptly as reasonably practicable following the mailing of the proxy statement to ForgeRock's stockholders.

The Merger is expected to close in the first half of calendar year 2023. Upon consummation of the Merger, we will cease to be a publicly traded Company and our Class A common stock will be delisted from the New York Stock Exchange.

Impact of COVID-19

The ongoing COVID-19 pandemic and efforts to mitigate its impact have significantly curtailed the movement of people, goods and services worldwide, including in the geographic areas in which we conduct our business operations and from which we generate our revenue. It has also caused societal and economic disruption and financial market volatility, resulting in business shutdowns and reduced business activity. We believe that the COVID-19 pandemic has had a modest negative impact on our business, financial condition, and results of operations, primarily as a result of:

- for certain enterprises, delaying or pausing digital transformation and expansion projects and negatively impacting IT spending, which has caused some potential customers to delay or forgo purchases of subscriptions for our platform and services and some existing customers to fail to renew subscriptions, reduce their usage or fail to expand their usage of our platform due to the COVID-19 pandemic's impact on their business;
- restricting our sales operations and marketing efforts, reducing the effectiveness of such efforts in some cases and delaying or lengthening our sales cycles; and
- delaying the delivery of professional services and training to our customers.

The COVID-19 pandemic may cause us to continue to experience the foregoing challenges in our business in the future and could have other effects on our business, including disrupting our ability to develop new offerings and enhance existing offerings, market and sell our products and conduct business activities generally.

In the longer term, we expect some positive impacts on our business as a result of the COVID-19 pandemic. We believe the COVID-19 pandemic has accelerated the trend of enterprises pursuing digital transformation initiatives in order to remain competitive, with identity being a key enabler of such transformation. Further, the COVID-19 pandemic has led to a rapid expansion of digital identities, as more consumer transactions are being undertaken over the internet and more employees are working remotely. We believe that these impacts of the COVID-19 pandemic will benefit our business in the future.

The COVID-19 pandemic has also driven some temporary cost savings to our business. We have experienced slower growth in certain operating expenses due to reduced business-related travel, deferred hiring for some positions and the cancellation of in-person customer and employee events. We do not yet have visibility into the full impact that the COVID-19 pandemic will have on our future business or results of operations, particularly if the COVID-19 pandemic continues and persists for an extended period of time. Given the uncertainty, we cannot reasonably estimate the impact on our future financial condition, results of operations or cash flows. See the Item 1A. "Risk Factors" for more information regarding risks related to the COVID-19 pandemic.

Key Factors Affecting Our Performance

We believe that our future performance will depend on many factors, including the following:

Acquiring New Customers

Our results of operations and growth depends in part on our ability to attract new customers and we believe there is a significant opportunity to grow our customer base.

Expanding Usage by Existing Customers

Our business depends, in part, on the degree to which our land-and-expand strategy is successful. Our customers often initially adopt our platform for a specific use case, such as consumer identity, and subsequently increase their adoption as they realize the benefits and flexibility of our platform.

Innovating and Advancing Our Platform

We intend to continue to invest in our research and development to extend the capabilities of our digital identity platform. Our investments in research and development drive core technology innovation and bring new products to market.

Expanding Strategic Partnerships and Alliances

Our growth depends in part on our ability to expand our strategic partnerships. We have four types of strategic alliances and partners: (1) Global Strategic Integrators and implementation partners, (2) OEM partners or customers who utilize components of our platform to deliver services, (3) strategic alliance partners such as Google Cloud where ForgeRock is a premier partner for digital identity, and (4) Trust Network partners who provide complementary technologies that plug into our platform such as Duo and LexisNexis ThreatMetrix.

Mix of Multi-Year Subscription Licenses and SaaS

Subscription term licenses are often deployed by our customers in public cloud environments such as Amazon Web Services (AWS), Google Cloud Platform (GCP) or Azure. Under ASC 606, Revenue from Contracts with Customers, for self-managed term-based subscription licenses, we recognize approximately half of the total contract value of the portion upfront as license revenue, with the remainder attributable to maintenance and support that is recognized ratably over the license term. If the total contract value of our subscription term licenses increases as a percentage of total contract value of all our subscriptions, more revenue would be recognized upfront.

For our SaaS offering, the ForgeRock Identity Cloud, substantially all of revenue is recognized ratably over the subscription term. If the total contract value of our SaaS subscriptions increases as a percentage of total contract value of all our subscriptions, less revenue would be recognized upfront. Consequently, the recognition of lower revenue will result in a higher operating loss.

For the reasons stated above, our revenue is affected by the overall growth in our business and changes in our revenue mix of self-managed subscriptions and SaaS subscriptions. As a result, our year-over-year growth rates for total revenue may not be comparable due to changes in revenue mix.

Seasonality

We experience seasonality in our business and believe seasonality will continue to affect our financial results. The purchasing patterns of our customers may coincide with their fiscal year end. Historically, a greater percentage of our subscription revenue from term-based licenses, which is recognized up front at the later of delivery or commencement of the license term, has been generated in the fourth quarter compared to other quarters.

Key Business Metrics

Annualized Recurring Revenue (ARR)

We believe that ARR is a key metric to measure our business performance because it is driven by our ability to acquire new customers and to maintain and expand our relationship with existing customers. We define ARR as the annualized value of all contractual subscription agreements as of the end of the period. To the extent that we are negotiating a renewal with a customer after the expiration of the subscription, we continue to include that revenue in ARR if we are actively in discussion with such an organization for a new subscription or renewal, or until such organization notifies us that it is not renewing its subscription. We perform this calculation on an individual customer basis by dividing the total dollar amount of the customer's contract by the total contract term stated in months and multiplying this amount by 12 to annualize. Calculated ARR for each individual customer is then aggregated to arrive at total ARR.

ARR does not have a standardized meaning and therefore may not be comparable to similarly titled measures presented by other companies. ARR should be viewed independently of revenue, deferred revenue and RPOs computed and/or disclosed in accordance with GAAP and is not intended to be combined with or to replace any of those items. Specifically, ARR, as calculated under the definition herein, does not adjust for the timing impact of revenue recognition for specific performance obligations identified within a contract. ARR is not a forecast and the active contracts at the date used in calculating ARR may or may not be extended by our customers.

The table below sets forth our ARR as of September 30, 2022 and 2021.

	As of September 30,		Change	
	2022	2021	Amount	Percent
	(in millions, except percentages)			
ARR	$ 212.8	$ 164.0	$ 48.8	30 %

Dollar-Based Net Retention Rate

Our ability to drive growth and generate incremental revenue depends, in part, on our ability to maintain and grow our relationships with customers. An important way in which we track our performance in this area is by measuring the dollar-based net retention rate (our Net Retention Rate). We calculate our Net Retention Rate by first identifying customers (the Base Customers) in a particular quarter (the Base Quarter). We then divide the ARR in the same quarter of the subsequent year attributable to the Base Customers (the Comparison Quarter) by the ARR attributable to those Base Customers in the Base Quarter. Our Net Retention Rate captures any increase or decrease in ARR from the Base Customers from the Base Quarter to the Comparison Quarter. We expand our relationships with customers as they purchase more identities, add more use cases across consumer, workforce, and IoT and services, subscribe to additional product offerings, and add additional deployment options such as our SaaS offering.

Our Net Retention Rate for the three months ended September 30, 2022 was 111%.

The following table sets forth our Net Retention Rate for the three months ended September 30, 2022 and 2021.

	Three Months Ended September 30,		
	2022	2021	Change
Net Retention Rate	111 %	112 %	(1) %

Number of Large Customers

We focus on the number of large customers because it represents our ability to land-and-expand with large enterprises and the number of large customers is a key indicator of our ability to grow our business and revenue in future periods. We define a large customer as a customer with $100,000 or greater ARR as of a measurement date. We had 431 large customers as of September 30, 2022, which represents a 17% increase compared to our large customer count as of September 30, 2021.

We believe that our ability to increase the number of large customers on our platform is an indicator of our market penetration, the growth of our business, and our potential future business opportunities. Over time, large customers have constituted a greater share of our revenue, which has contributed to an increase in average revenue per customer. We define a customer as a separate and distinct buying entity, such as a company, an educational or government institution, or a distinct business unit of a large company that has an active contract with us or one of our partners to access our platform.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe the following non-GAAP financial measures are useful to investors in evaluating our operating performance and liquidity. We use non-GAAP financial measures to understand and evaluate our core operating performance and trends, to prepare our annual budget, to monitor and assess our liquidity, and to develop short-term and long-term operating plans. We believe that the non-GAAP financial measures we review are each a useful measure to us and to our investors because they provide consistency and comparability with our past performance and between periods, as these metrics generally eliminate the effects of the variability of certain charges and expenses that may not reflect our overall operating performance and liquidity. We believe that non-GAAP financial measures, when taken collectively with GAAP financial information, can be helpful to us and to investors because it provides consistency and comparability with past performance and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their GAAP results.

The non-GAAP financial information is presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP and may be different from similarly-titled non-GAAP measures used by other companies. The principal limitation of these non-GAAP financial measures is that they exclude expenses that are required by GAAP to be recorded in our condensed consolidated financial statements. In addition, they are subject to inherent limitations as they reflect the exercise of judgment by our management about which expenses are excluded or included in determining these non-GAAP financial measures. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

Non-GAAP Gross Profit and Non-GAAP Gross Margin

Gross profit is defined as GAAP revenue less cost of revenue and gross margin is GAAP gross profit as a percentage of total revenue. We define non-GAAP gross profit and non-GAAP gross margin as GAAP gross profit and GAAP gross margin, in each case adjusted to exclude stock-based compensation expense.

A reconciliation of Non-GAAP gross profit to GAAP gross profit, and non-GAAP gross margin to GAAP gross margin, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands, except percentages)			
Gross Profit	$ 48,656	$ 35,732	$ 126,394	$ 106,059
Add: Stock-based compensation included in cost of revenue	657	26	1,789	193
Non-GAAP gross profit	$ 49,313	$ 35,758	$ 128,183	$ 106,252
Gross margin	84 %	81 %	82 %	82 %
Non-GAAP gross margin	85 %	81 %	83 %	82 %

Non-GAAP Operating Loss and Non-GAAP Operating Margin

We define non-GAAP operating loss and non-GAAP operating margin as GAAP operating loss and GAAP operating margin, adjusted for stock-based compensation expense and acquisition-related costs.

A reconciliation of non-GAAP operating loss and non-GAAP operating margin to GAAP operating loss and GAAP operating margin, the most directly comparable GAAP measures, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands, except percentages)			
Operating loss	$ (12,786)	$ (8,792)	$ (50,700)	$ (18,041)
Add: Stock-based compensation expense	7,725	3,109	22,155	6,396
Add: Acquisition-related costs	2,364	—	2,364	—
Non-GAAP operating loss	$ (2,697)	$ (5,683)	$ (26,181)	$ (11,645)
Operating margin	(22)%	(20)%	(33)%	(14)%
Non-GAAP operating margin	(5)%	(13)%	(17)%	(9)%

Adjusted EBITDA

We define Adjusted EBITDA as operating loss, adjusted for depreciation, stock-based compensation expense and acquisition-related costs.

A reconciliation of Adjusted EBITDA to operating loss, the most directly comparable GAAP measure, is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands)			
Operating loss	$ (12,786)	$ (8,792)	$ (50,700)	$ (18,041)
Add: Depreciation	263	259	812	795
Add: Stock-based compensation	7,725	3,109	22,155	6,396
Add: Acquisition-related costs	2,364	—	2,364	—
Adjusted EBITDA	$ (2,434)	$ (5,424)	$ (25,369)	$ (10,850)

Free Cash Flow

We define free cash flow as net cash provided by (used in) operating activities less cash used for purchases of property and equipment.

A reconciliation of free cash flow to net cash used in operating activities, the most directly comparable GAAP measure, is as follows:

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
Net cash used in operating activities	$ (31,004)	$ (31,356)
Purchases of property and equipment	(1,474)	(459)
Free cash flow	$ (32,478)	$ (31,815)
Net cash provided by (used in) investing activities	32,102	(181,914)
Net cash provided by financing activities	8,191	311,110
Cash paid for interest	2,426	2,536

Components of Results of Operations

Revenue

We derive revenue primarily from subscriptions and, to a lesser extent, professional services and perpetual licenses.

Subscriptions and Perpetual Licenses. Subscriptions and perpetual licenses revenue consist of the following:

Subscription Term Licenses. We sell subscriptions for our solutions that are self-managed by our customer within our customer's IT infrastructure or cloud infrastructure. These subscriptions include licenses and technical support and access to new software updates on a when-and-if available basis. We recognize the license portion, which is approximately half of the total contract value, upon the later of the delivery of the software and commencement of the subscription term. The remainder is recognized ratably over the subscription term as support & maintenance revenue. We typically invoice our customers annually in advance.

Subscription SaaS, Support & Maintenance. We sell SaaS subscriptions for access to the ForgeRock Identity Cloud, our SaaS offering. We sell support and maintenance bundled with license in the self-managed software subscription offering, or as a standalone for the perpetual license support & maintenance renewal. For our SaaS offerings, we recognize revenue ratably over the period beginning on the latter of the commencement of the subscription term or the provisioning of the SaaS service, to the end of the subscription term. For support and maintenance, we recognize revenue ratably over the period beginning on the latter of the commencement of the subscription term or the delivery of the software to the end of the subscription term.

Perpetual Licenses. We also sell perpetual licenses to our self-managed solutions. Revenue from our perpetual licenses is recognized when the software is delivered or made available to the customer. In both the three and nine months ended September 30, 2022 and 2021, revenue from perpetual licenses represented approximately less than 1% of our total revenue. This reflects a shift by our customers away from purchasing perpetual licenses in favor of subscription term licenses or SaaS subscriptions. We do not expect perpetual license revenue to be material in future periods.

Subscriptions and perpetual licenses revenue represented approximately 95% and 96% of our total revenue in the three months ended September 30, 2022 and 2021, respectively and 95% and 97% of our total revenue in the nine months ended September 30, 2022 and 2021, respectively. We expect that substantially all our revenue will be generated from subscriptions for the foreseeable future. Our subscriptions revenue may fluctuate due to the timing and relative mix between revenue from subscription term licenses and subscription SaaS, support & maintenance. Over time, we expect a greater percentage of our subscriptions and perpetual licenses revenue will come from our ForgeRock Identity Cloud offering. This will have a negative impact on our near-term revenue growth as SaaS subscription revenue is recognized ratably.

Professional Services. Professional services consist primarily of fees from professional services provided to our customers and partners to configure and optimize the use of our solutions, as well as training services related to the configuration and operation of our solutions. Our professional services are generally priced on a time and materials or fixed package basis and is generally invoiced upfront. Revenue from professional services is recognized as the service hours are used or milestones are achieved. Revenue from our training services is recognized on the date the services are completed.

Revenue from professional services represented 5% and 4% of our total revenue in the three months ended September 30, 2022 and 2021, respectively and 5% and 3% of our total revenue in the nine months ended September 30, 2022 and 2021, respectively. We expect our professional services revenue to increase in absolute dollars as our business continues to grow, but we do not expect professional services revenue to fluctuate significantly as a percentage of total revenue over time.

Overhead Allocation and Employee Compensation Costs

We allocate shared costs, such as facilities costs (including rent, utilities and depreciation on assets shared by all departments) and certain information technology costs to all departments based on headcount. As such, allocated shared costs are reflected in each cost of revenue and operating expense category. Employee compensation costs include salaries, bonuses, benefits and stock-based compensation for each cost of revenue and operating expense category, sales commissions for sales employees and any compensation related taxes.

Cost of Revenue

Subscriptions and Perpetual Licenses. Subscriptions and perpetual licenses cost of revenue consists of personnel costs, including salaries, bonuses, and benefits, as well as stock-based compensation, for employees associated with our subscription offerings and customer support, allocated overhead costs, and third-party costs, including cloud infrastructure costs and other expenses directly associated with our customer support. We expect our subscriptions and perpetual licenses cost of revenue to increase in absolute dollars to the extent our subscriptions revenue increases. As a percentage of revenue, we expect subscriptions and perpetual licenses cost of revenue to increase as a percentage of total revenue in the near term as we grow our SaaS subscription business, but to decrease as a percentage of our total revenue over the long term as our SaaS subscription revenue grows.

Professional Services. Professional services cost of revenue consists of personnel costs, including salaries, bonuses and benefits, as well as stock-based compensation, for employees associated with our professional services and training services, allocated overhead costs, and third-party costs, including other costs directly associated with our professional and training services. We expect our professional services cost of revenue to increase in absolute dollars as our business continues to grow. As a percentage of revenue, we expect professional services cost of revenue to fluctuate over time as we continue to invest in our growth. The cost of providing professional services has historically been higher than the associated revenue we generate, as we use professional services to help drive customer success and increased subscriptions and perpetual licenses revenue.

Gross Profit and Gross Margin

Gross profit (revenue less cost of revenue), and gross margin (gross profit as a percentage of total revenue), have been and will continue to be affected by various factors, including the timing of the acquisition of new customers and the renewal of and expansion of sales to existing customers, the mix between revenue from subscription term licenses and subscription SaaS, support & maintenance, the costs associated with operating our platform, the extent to which we expand our customer support team, and the extent to which we can increase the efficiency of our technology and infrastructure through technological improvements. We expect our gross profit to increase in absolute dollars as total revenue increases but our gross margin to decrease as we invest further in our cloud-based infrastructure to support our subscription SaaS offering. We expect subscriptions and perpetual licenses cost of revenue to increase consistently with the growth in our subscriptions and perpetual licenses revenue, although our gross margin could fluctuate from period-to-period.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, bonuses, payroll taxes, stock-based compensation expense and, with regard to sales and marketing expenses, sales commissions.

Research and Development. Research and development expenses primarily consist of personnel costs, outside consultants, and overhead. We focus our research and development efforts on developing new solutions, core technologies, and to further enhance the functionality, reliability, performance and flexibility of existing solutions. We expect our research and development expenses will increase in absolute dollars as our business grows. However, we expect our research and development expenses will decrease as a percentage of total revenue over the long term, although they may fluctuate as a percentage of total revenue from period-to-period depending on the timing of expenses.

Sales and Marketing. Sales and marketing expenses primarily consist of personnel costs, costs of general marketing and promotional activities, travel-related expenses, and overhead. Certain sales commissions earned by our sales force on subscription contracts are deferred and amortized over the period of benefit which is generally four to five years. We expect to continue to invest in our sales force domestically and internationally, as well as in our channel relationships. We expect our sales and marketing expenses to increase in absolute dollars and continue to be our largest operating expense category for the foreseeable future. However, we expect our sales and marketing expenses will decrease as a percentage of total revenue over the long term, although they may fluctuate as a percentage of total revenue from period-to-period depending on the timing of expenses.

General and Administrative. General and administrative expenses consist primarily of personnel costs associated with our executive, human resource, legal, facilities, accounting and finance, information security, and information technology departments. In addition, general and administrative expenses include third-party professional fees and overhead.

We expect that our general and administrative expenses will increase in absolute dollars as our business grows. We also expect to incur additional general and administrative expenses since we became a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, including regarding internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, and increased expenses for insurance, investor relations and professional services. However, we expect that our general and administrative expenses will decrease as a percentage of total revenue over the long term, although they may fluctuate as a percentage of total revenue from period-to-period depending on the timing of expenses.

Acquisition-related costs. Acquisition-related costs primarily consist of legal and professional service fees incurred as part of the Company's proposed acquisition by Thoma Bravo.

Interest and Other Income (Expense), Net

Interest Expense. Interest expense consists primarily of interest payments on our outstanding borrowings under our Credit Facilities as well as the amortization of associated deferred financing costs. See "Liquidity and Capital Resources" for additional information.

Other Income (Expense), Net. Other income (expense), net primarily consists of gains and losses from foreign currency transactions denominated in a currency other than the functional currency, fair value changes on a preferred stock tranche option and warrants, and interest income. We expect our exposure to fluctuations in foreign currencies will increase as we continue to expand our business internationally.

Provision for Income Taxes

Provision for income taxes consists primarily of income taxes related to U.S. federal and state income taxes and income taxes in foreign jurisdictions in which we conduct business.

Results of Operations

The following tables set forth our results of operations for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue:				
Subscription term licenses	$ 23,904	$ 19,364	$ 59,089	$ 62,949
Subscription SaaS, support & maintenance	31,282	22,940	87,029	61,543
Perpetual licenses	91	183	197	885
Total subscriptions and perpetual licenses	55,277	42,487	146,315	125,377
Professional services	2,943	1,739	7,674	3,652
Total revenue	58,220	44,226	153,989	129,029
Cost of revenue:				
Subscriptions and perpetual licenses	6,635	4,517	18,903	12,312
Professional services	2,929	3,977	8,692	10,658
Total cost of revenue [(1)]	9,564	8,494	27,595	22,970
Gross profit	48,656	35,732	126,394	106,059
Operating expenses:				
Research and development [(1)]	15,554	10,827	45,699	31,214
Sales and marketing [(1)]	28,973	22,509	86,001	64,795
General and administrative [(1)]	14,551	11,188	43,030	28,091
Acquisition-related costs	2,364 1,707	—	2,364	—
Total operating expenses	61,442	44,524	177,094	124,100
Operating loss	(12,786)	(8,792)	(50,700)	(18,041)
Foreign currency gain (loss)	2,173	(2,684)	3,634	(3,003)
Fair value adjustment on warrants and preferred stock tranche option	—	(2,729)	—	(10,068)
Interest expense	(894)	(1,195)	(2,674)	(3,572)
Other, net	721	339	1,065	(66)
Interest and other income (expense), net	2,000	(6,269)	2,025	(16,709)
Loss before income taxes	(10,786)	(15,061)	(48,675)	(34,750)
Provision for income taxes	152	205	1,103	660
Net loss	$ (10,938)	$ (15,266)	$ (49,778)	$ (35,410)

[1] Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
		(in thousands)		
Cost of revenue	$ 657	$ 26	$ 1,789	$ 193
Research and development	1,632	564	4,685	1,058
Sales and marketing	2,798	1,078	7,859	2,046
General and administrative	2,638	1,441	7,822	3,099
Total stock-based compensation expense	$ 7,725	$ 3,109	$ 22,155	$ 6,396

The following table sets forth our results of operations for the periods presented as a percentage of our total revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue:				
Subscription term licenses	41 %	44 %	38 %	49 %
Subscription SaaS, support & maintenance	54	52	57	47
Perpetual licenses	—	—	—	1
Total subscriptions and perpetual licenses	95	96	95	97
Professional services	5	4	5	3
Total revenue	100	100	100	100
Cost of revenue:				
Subscriptions and perpetual licenses	11	10	12	10
Professional services	5	9	6	8
Total cost of revenue	16	19	18	18
Gross profit	84	81	82	82
Operating expenses:				
Research and development	27	24	30	24
Sales and marketing	50	51	56	50
General and administrative	25	25	28	22
Acquisition-related costs	4	—	2	—
Total operating expenses	106	100	116	96
Operating loss	(22)	(19)	(34)	(14)
Foreign currency gain (loss)	4	(6)	2	(2)
Fair value adjustment on warrants and preferred stock tranche option	—	(6)	—	(8)
Interest expense	(2)	(3)	(2)	(3)
Other, net	1	1	1	0
Interest and other income (expense), net	3	(14)	1	(13)
Loss before income taxes	(19)	(33)	(33)	(27)
Provision for income taxes	—	—	1	—
Net loss	(19) %	(33) %	(34) %	(27) %

Comparison of the Three Months Ended September 30, 2022 and 2021

Revenue

	Three Months Ended September 30,		Change	
	2022	2021	Amount	Percent
	(in thousands, except percentages)			
Revenue:				
Subscription term licenses	$ 23,904	$ 19,364	$ 4,540	23%
Subscription SaaS, support & maintenance	31,282	22,940	8,342	36%
Perpetual licenses	91	183	(92)	(50)%
Total subscriptions and perpetual licenses	55,277	42,487	12,790	30%
Professional services	2,943	1,739	1,204	69%
Total revenue	$ 58,220	$ 44,226	$ 13,994	32%

Total subscriptions and perpetual licenses revenue increased by $12.8 million, or 30%, in the three months ended September 30, 2022 compared to the three months ended September 30, 2021. Subscription term licenses revenue increased by $4.5 million or 23% in the three months ended September 30, 2022 compared to the three months ended September 30, 2021. The increase in subscription term licenses revenue was driven by higher self-managed subscription bookings. Subscription SaaS, support & maintenance revenue increased by $8.3 million or 36% in the three months ended September 30, 2022 compared to the three months ended September 30, 2021. The increase in SaaS, support & maintenance revenue was driven by the addition of new customers due to increased adoption of our SaaS solutions as well as an increase in the number of identities and additional modules sold to existing customers. The increase in support and maintenance revenue was primarily driven by the steady growth of the installed base.

Professional services revenue increased by $1.2 million or 69% in the three months ended September 30, 2022 compared to the three months ended September 30, 2021. This increase was primarily driven by an increase in the cloud onboarding service and self-managed software service hours delivered by us in the three months ended September 30, 2022 compared to the three months ended September 30, 2021.

Cost of Revenue, Gross Profit and Gross Margin

	Three Months Ended September 30,		Change	
	2022	2021	Amount	Percent
	(in thousands, except percentages)			
Cost of revenue:				
Subscriptions and perpetual licenses	$ 6,635	$ 4,517	$ 2,118	47%
Professional services	2,929	3,977	(1,048)	(26)%
Total cost of revenue	$ 9,564	$ 8,494	$ 1,070	13%
Gross Margin				
Subscriptions and perpetual licenses	88 %	89 %		
Professional services	1 %	(129)%		
Total gross margin	84 %	81 %		

Subscriptions and perpetual licenses cost of revenue increased by $2.1 million, or 47%, in the three months ended September 30, 2022 compared to the three months ended September 30, 2021. This increase was primarily due to a $1.7 million increase in headcount and related personnel costs to support the growth of our offerings, as well as a $0.4 million increase in SaaS costs, stemming from ongoing maintenance for our expanding customer base and our investment in cloud infrastructure costs for our ForgeRock Identity Cloud offering.

Professional services cost of revenue decreased by $1.0 million, or 26%, in the three months ended September 30, 2022 compared to the three months ended September 30, 2021. The decrease was related to a $0.9 million reduction in payroll costs for certain employees whose nature of work has evolved from directly supporting customers to now being directly aligned with our Sales & Marketing efforts around customer renewals and churn mitigation.

Gross margin for subscriptions and perpetual licenses was 88% and 89% in the three months ended September 30, 2022 and September 30, 2021, respectively. The decrease in gross margin for subscriptions and perpetual licenses was due to investments to support the anticipated growth in new customers. While our gross margins for subscription and perpetual licenses revenue may fluctuate in the near-term as we invest in our growth, we expect our subscription revenue gross margin to improve over the long-term as we achieve additional economies of scale. Gross margin for professional services improved to 1% in the three months ended September 30, 2022 from (129)% in the three months ended September 30, 2021. The improvement in gross margin for professional services was primarily due to an increase in revenue from professional services delivery.

Operating Expenses

	Three Months Ended September 30,		Change	
	2022	2021	Amount	Percent
	(in thousands, except percentages)			
Operating Expenses:				
Research and development	$ 15,554	$ 10,827	$ 4,727	44%
Sales and marketing	28,973	22,509	6,464	29%
General and administrative	14,551	11,188	3,363	30%
Acquisition-related costs	2,364	—	2,364	100%
Total operating expenses	$ 61,442	$ 44,524	$ 16,918	38%

Research and Development. Research and development expenses increased $4.7 million, or 44%, in the three months ended September 30, 2022 compared to the three months ended September 30, 2021 primarily due to an increase of $2.7 million in personnel costs related to higher headcount to support our continued research and development efforts in enhancing our offerings. Further, there was a $0.8 million increase in cloud costs, including Google, related to our cloud strategy, and a $0.6 million increase in professional fees.

Sales and Marketing. Sales and marketing expenses increased $6.5 million, or 29% in the three months ended September 30, 2022 compared to the three months ended September 30, 2021. The increase was primarily due to a $4.4 million increase in personnel costs related primarily to higher headcount, a $1.1 million increase in travel-related expenses due to the easing of COVID-19 pandemic travel restrictions and a $0.4 million increase in marketing costs as marketing events ramp back up in 2022.

General and Administrative. General and administrative expenses increased $3.4 million, or 30%, in the three months ended September 30, 2022 compared to the three months ended September 30, 2021. The increase was primarily due to a $1.5 million increase in personnel costs driven by higher headcount and an increase in stock-based compensation expense. There was also a $1.3 million increase in third-party professional fees and a $0.4 million increase related to insurance and facilities costs due to an increase in insurance expenses as a result of being a public company during the three months ended September 30, 2022.

Acquisition-related costs. Acquisition-related costs increased by $2.4 million in the three months ended September 30, 2022 compared to the three months ended September 30, 2021. The increase was related to accruals of professional service and legal fees related to the proposed Thoma Bravo Acquisition.

Interest and Other Income (Expense), Net

	Three Months Ended September 30,		Change	
	2022	2021	Amount	Percent
	(in thousands, except percentages)			
Interest and other income (expense), net				
Foreign currency gain (loss)	$ 2,173	$ (2,684)	$ 4,857	(181%)
Fair value adjustment on warrants and stock tranche option	—	(2,729)	2,729	(100%)
Interest expense	(894)	(1,195)	301	(25%)
Other, net	721	339	382	113%
Interest and other income (expense), net	$ 2,000	$ (6,269)	$ 8,269	(132%)

We recorded a net foreign currency gain of $2.2 million in the three months ended September 30, 2022 compared to a net foreign currency loss of $2.7 million in the three months ended September 30, 2021, primarily due to foreign currency remeasurement fluctuations on balances primarily denominated in the US Dollar, Euro and British pound. In the three months ended September 30, 2022, we did not record a fair value mark-to-market adjustment on a preferred stock tranche call option or on warrants (whereas in the three months ended September 30, 2021, we recorded a fair value mark-to-market adjustment on a preferred stock tranche call option and warrants of $2.7 million) because the option was exercised in April 2021 by its holder who purchased shares of Series E-1 preferred stock with an aggregate value of $20.0 million and the warrants were exercised in September 2021. Interest expense decreased to $0.9 million in the three months ended September 30, 2022 compared to $1.2 million in the three months ended September 30, 2021 due to lower interest rates under our debt agreements as amended, effective September 16, 2021.

Provision for Income Taxes

In the three months ended September 30, 2022 and 2021, we recorded a provision for income taxes of $0.2 million and $0.2 million, respectively. In the three months ended September 30, 2022 and 2021, the effective tax rate differs from the U.S. federal statutory income tax rate of 21% primarily as a result of not recognizing deferred tax assets for domestic and certain foreign jurisdictions due to a full valuation allowance against those deferred tax assets.

Comparison of the Nine Months Ended September 30, 2022 and 2021

Revenue

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	Percent
	(in thousands, except percentages)			
Revenue:				
Subscription term licenses	$ 59,089	$ 62,949	$ (3,860)	(6)%
Subscription SaaS, support & maintenance	87,029	61,543	25,486	41%
Perpetual licenses	197	885	(688)	(78)%
Total subscriptions and perpetual licenses	146,315	125,377	20,938	17%
Professional services	7,674	3,652	4,022	110%
Total revenue	$ 153,989	$ 129,029	$ 24,960	19%

Total revenue increased by $25.0 million, or 19%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021.

Total subscriptions and perpetual licenses revenue increased by $20.9 million, or 17% in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. Subscription term licenses revenue decreased by $3.9 million or 6% in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The decrease in subscription term licenses revenue was primarily driven by the lower self-managed subscription bookings as well as the timing of revenue recognition due to when the term licenses were delivered. Subscription SaaS, support & maintenance revenue increased by $25.5 million or 41% in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The increase in SaaS, support & maintenance revenue was driven by the addition of new customers due to increased adoption of our SaaS solutions as well as an increase in the number of identities and additional modules sold to existing customers. The increase in support and maintenance revenue was primarily driven by the steady growth of the installed base. Perpetual licenses revenue decreased by $0.7 million, or 78%, in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021.

Professional services revenue increased by $4.0 million or 110% in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. There was an increase in cloud onboarding services and deployment of service hours delivered by us in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021.

Cost of Revenue, Gross Profit and Gross Margin

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	Percent
	(in thousands, except percentages)			
Cost of revenue:				
Subscriptions and perpetual licenses	$ 18,903	$ 12,312	$ 6,591	54%
Professional services	8,692	10,658	(1,966)	(18)%
Total cost of revenue	$ 27,595	$ 22,970	$ 4,625	20%
Gross Margin				
Subscriptions and perpetual licenses	87 %	90 %		
Professional services	(13)%	(192)%		
Total gross margin	82 %	82 %		

Total cost of revenue increased by $4.6 million, or 20%, for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. Subscriptions and perpetual licenses cost of revenue increased by $6.6 million, or 54%, in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, primarily due to an increase in personnel costs and significant investment in cloud infrastructure costs for our subscription offerings, including our ForgeRock Identity Cloud offerings. Professional services cost of revenue decreased by $2.0 million, or 18%, in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021, primarily due to a reduction in payroll costs for certain employees whose nature of work has evolved from directly supporting customers to now being directly aligned with our Sales & Marketing efforts around customer renewals and churn mitigation.

Gross margin for subscriptions and perpetual licenses decreased to 87% in the nine months ended September 30, 2022 from 90% in the nine months ended September 30, 2021. While our gross margins for subscription and perpetual licenses revenue may fluctuate in the near-term due to revenue contraction, we expect our subscription revenue gross margin to improve over the long-term as we achieve additional economies of scale. Gross margin for professional services increased to (13)% in the nine months ended September 30, 2022 from (192)% in the nine months ended September 30, 2021. The improvement in gross margin for professional services was due to an increase in revenue from professional services delivery while the related cost of revenue decreased due to a decrease in average headcount for the period driven by the Company's cost of revenue allocations.

Operating Expenses

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	Percent
	(in thousands, except percentages)			
Operating expenses:				
Research and development	$ 45,699	$ 31,214	$ 14,485	46%
Sales and marketing	86,001	64,795	21,206	33%
General and administrative	43,030	28,091	14,939	53%
Acquisition-related costs	2,364	—	2,364	100%
Total operating expenses	$ 177,094	$ 124,100	$ 52,994	43%

Research and development. Research and development expenses increased $14.5 million, or 46%, in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The increase was primarily due to an increase of $9.6 million in personnel costs related to higher headcount, a $1.8 million increase in professional fees and a $1.9 million increase in cloud costs for Google, related to our cloud strategy.

Sales and marketing. Sales and marketing expenses increased $21.2 million, or 33%, in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The increase was primarily due to an increase of $14.7 million in personnel costs related primarily to higher headcount, including personnel costs for certain employees that were previously included in cost of revenue as described above and a $2.0 million increase in marketing costs related to in-person marketing events that ramp back up due to COVID-19 restrictions being lifted. The ease in travel restrictions also resulted in an increase in travel related expenses of $2.0 million.

General and administrative. General and administrative expenses increased $14.9 million, or 53%, in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The increase was primarily due to an increase of $7.7 million in personnel costs due to a higher headcount and a $4.0 million increase in third-party compliance and professional fees related to becoming a public company. There was also an increase of $2.4 million related to insurance and facilities costs due to an increase in insurance expenses as a result of being a public company.

Acquisition-related costs. Acquisition-related costs increased by $2.4 million in the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The increase was related to accruals of professional service and legal fees related to the proposed Thoma Bravo acquisition.

Interest and other income (expense), net

	Nine Months Ended September 30,		Change	
	2022	2021	Amount	Percent
	(in thousands, except percentages)			
Interest and other income (expense), net				
Foreign currency gain (loss)	$ 3,634	$ (3,003)	$ 6,637	(221%)
Fair value adjustment on warrants and stock tranche option	—	(10,068)	10,068	(100%)
Interest expense	(2,674)	(3,572)	898	(25%)
Other, net	1,065	(66)	1,131	(1714%)
Interest and other income (expense), net	$ 2,025	$ (16,709)	$ 18,734	(112%)

We recorded a net foreign currency gain of $3.6 million in the nine months ended September 30, 2022 compared to a net foreign currency loss of $3.0 million in the nine months ended September 30, 2021, primarily due to fluctuations in foreign currency remeasurement gains on balances denominated primarily in US Dollar, Euro, and British Pound. In the nine months ended September 30, 2022, we did not record a fair value mark-to-market adjustment on a preferred stock tranche call option (whereas in the nine months ended September 30, 2021, we recorded a fair value mark-to-market adjustment related to warrants and preferred stock tranche option of 10.1 million) because the option was exercised in April 2021 by its holder who purchased shares of Series E-1 preferred stock with an aggregate value of $20.0 million and the warrants were exercised in September 2021. Interest expense decreased to $2.7 million in the nine months ended September 30, 2022 compared to $3.6 million in the nine months ended September 30, 2021 due to lower interest rates under our debt agreements as amended, effective September 16, 2021.

Provision for Income Taxes

In the nine months ended September 30, 2022 and 2021, we recorded a provision for income taxes of $1.1 million and $0.7 million, respectively. In the nine months ended September 30, 2022 and 2021, the effective tax rate differs from the U.S. federal statutory income tax rate of 21% primarily as a result of not recognizing deferred tax assets for domestic and certain foreign jurisdictions due to a full valuation allowance against those deferred tax assets.

Liquidity and Capital Resources

As of September 30, 2022, our principal sources of liquidity were cash, cash equivalents and short-term investments of $342.5 million, which were held for working capital purposes. Our cash equivalents are comprised primarily of money market funds and our short-term investments are comprised of marketable securities. We have generated significant operating losses and negative cash flows from operations as reflected in our accumulated deficit and condensed consolidated statements of cash flows. We expect to continue to incur operating losses and negative cash flows from operations for the foreseeable future.

We have funded our operations and capital expenditures primarily through equity issuances, debt instruments and cash generated from our customers. During 2021, we received $295.7 million and $20.0 million of net cash proceeds from the IPO and exercise of a preferred stock tranche option that was exercised by one of our investors, respectively. We believe our existing cash, cash equivalents, short-term investments and cash provided by sales of our products and services will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months following the date of this report. We use our cash for a variety of needs, including but not limited to ongoing investments in our business, capital expenditures and investment in our infrastructure, including non-cancellable purchase commitments, and debt obligations. Our future capital requirements will depend on many factors, including our licenses growth rate, licenses renewal activity, billing frequency, the timing and extent of spending required to support development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced product offerings, the continuing market adoption of our platform and further investment in general and administrative functions to meet the compliance requirements of being a public company. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies this could reduce our ability to compete successfully and harm our business, financial condition, and results of operations.

In September 2021, we executed an amendment to the Amended Restated Plain English Growth Capital Loan and Security Agreement with TriplePoint Venture Growth BDC Corp. and TriplePoint Capital LLC, or the A&R Loan Agreement. The A&R Loan Agreement became effective once the registration statement in connection with the initial public offering was declared effective on September 16, 2021. The key provisions of the amendment include: (1) a covenant requiring the maintenance of a $20.0 million cash balance, (2) change in the interest rate for outstanding term loan to be eight percent (8.00%) per annum on the existing loans, (3) extension of the maturity dates by twenty-four months, (4) change in the prepayment penalties and (5) and a change in the prepayment premium. The principal will be due at the end of the term of the respective advance. As of September 30, 2022, the balance outstanding under our term loan facility was $40.0 million and is included in long-term debt on our condensed consolidated balance sheet.

All of our obligations under our term loan facility are guaranteed by ForgeRock US, Inc. and ForgeRock Limited and, subject to certain exceptions, secured by a security interest in substantially all of our assets, excluding intellectual property, which is subject to a negative pledge.

A significant majority of our customers pay in advance for their subscriptions. Therefore, a substantial source of our cash is from our deferred revenue, which is included on our consolidated balance sheet as a liability. Deferred revenue consists of the unearned portion of billed fees for our subscriptions, which is recognized as revenue in accordance with our revenue recognition policy. As of September 30, 2022, we had deferred revenue of $59.3 million, of which $57.9 million is recorded as a current liability and is expected to be recorded as revenue in the next 12 months, provided all other revenue recognition criteria have been met.

Merger Agreement

On October 10, 2022, we entered into the Merger Agreement. We have agreed to various representations, warranties, covenants and agreements, including, among others, agreements to conduct our business in the ordinary course during the period between the execution of the Merger Agreement and the effective time of the Merger. If the Merger Agreement is terminated in certain circumstances, including by us in order to enter into a superior proposal or by Parent because the Board withdraws its recommendation in favor of the Merger, we would be required to pay Parent a termination fee of $60.0 million. In addition, without the consent of Parent, we may not take, authorize, agree or commit to do certain actions outside of the ordinary course of business, including incurring material capital expenditures above specified thresholds, or issuing additional debt. We do not believe that the restrictions in the Merger Agreement will prevent us from meeting our debt obligations, ongoing costs of operations, working capital needs or capital expenditure requirements.

Cash Flows

	Nine Months Ended September 30,	
	2022	2021
	(in thousands)	
Net cash used in operating activities	$ (31,004)	$ (31,356)
Net cash provided by (used in) investing activities	32,102	(181,914)
Net cash provided by financing activities	8,191	311,110
Effect of exchange rates on cash and cash equivalents and restricted cash	857	(638)
Net increase in cash, cash equivalents and restricted cash	$ 10,146	$ 97,202

Operating Activities

Our largest source of operating cash is cash collections from our customers for subscription, support and maintenance services. Our primary uses of cash from operating activities are for employee-related expenditures, marketing expenses and third-party hosting costs. Historically, we have generated negative cash flows from operating activities and have supplemented working capital requirements through net proceeds from the sale of equity securities and term loans.

During the nine months ended September 30, 2022 cash used in operating activities was $31.0 million. This consisted primarily of a net loss of $49.8 million, adjusted for non-cash charges of $33.6 million and net cash outflows of $14.8 million used in our operating assets and liabilities. Non-cash charges primarily consisted of amortization of deferred commissions of $10.7 million driven by the timing of revenue recognition and stock-based compensation of $22.2 million. The primary drivers of the changes in operating assets and liabilities related to a change in deferred commissions of $13.2 million driven by the timing of commission payments, a $22.1 million change due to a decrease in accounts receivable, a $3.4 million change in contract and other non-current assets due to the issuance of invoices and timing of revenue recognition, a $15.7 million decrease related to changes in deferred revenue and a $0.5 million decrease in accrued expenses and other liabilities due to the timing of cash disbursements.

During the nine months ended September 30, 2021, cash used in operating activities was $31.4 million. This consisted primarily of a net loss of $35.4 million, adjusted for non-cash charges of $31.6 million and net cash outflows of $27.5 million used in our operating assets and liabilities. Non-cash charges primarily consisted of amortization of deferred commissions of $10.4 million, change in fair value of redeemable convertible preferred stock warrant liability of $5.9 million, stock-based compensation expense of $6.4 million., change in fair value of preferred stock tranche option liability of $4.2 million, and a foreign currency remeasurement gain of $2.0 million. The primary drivers of the changes in operating assets and liabilities related to an increase in accounts receivable of $2.2 million due to the timing of collection of payment from our customers and a change in deferred commissions of $14.4 million driven by the timing of commission payments. Additional changes in operating assets and liabilities include an increase in contract and other non-current assets of $13.5 million, an increase of prepaid expenses and other current assets of $3.7 million, a decrease of operating lease liabilities of $1.6 million, partially offset by an increase in accrued expenses and other liabilities of $3.2 million.

Investing Activities

Net cash provided by investing activities during the nine months ended September 30, 2022 of $32.1 million primarily consisted of sales and maturities of marketable securities of $39.1 million and $133.6 million, respectively. This was partially offset by purchases of marketable securities of $139.1 million and purchases of property and equipment of $1.5 million.

Net cash used in investing activities during the nine months ended September 30, 2021 of $181.9 million, which primarily consisted of the purchase of available for sale securities of $201.4 million, partially offset by $20.0 million from sales of short-term investments.

Financing Activities

Cash provided by financing activities during the nine months ended September 30, 2022 was $8.2 million, which primarily consisted of proceeds from the issuance of common stock under the employee stock purchase plan of $4.4 million and proceeds from the exercise of employee stock options of $4.2 million.

Cash provided by financing activities during the nine months ended September 30, 2021 was $311.1 million, primarily as a result of proceeds consisting of $291.6 million of aggregate net proceeds from our IPO, net of underwriting discounts and commissions and offering costs paid, the issuance of Series E-1 redeemable convertible preferred stock of $20.0 million and the exercise of employee stock options of $3.2 million partially offset by $3.5 million of employee payroll taxes paid for net shares settlement of restricted stock units upon our IPO.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities at the date of our financial statements. We evaluate our estimates and assumptions on an ongoing basis. The estimates and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, impacting our reported results of operations and financial condition.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the year ended December 31, 2021. For more information, please refer to our Annual Report on Form 10-K as well as "Note 2—Summary of Significant Accounting Policies" to the unaudited condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

See Note 2, "Summary of Significant Accounting Policies" to our condensed consolidated financial statements included in Part I, Item 1 included in this Quarterly Report on Form 10-Q for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations, financial condition, and cash flows.

JOBS Act Accounting Election

We are an emerging growth company pursuant to the provisions of the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. For as long as we are an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies. The JOBS Act also permits an emerging growth company to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. The Company elected to use the extended transition period until we are no longer an emerging growth company or until we choose to affirmatively and irrevocably opt out of the extended transition period. As a result, our unaudited condensed consolidated financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates. Effective December 31, 2022, the Company will no longer meet the definition of an EGC. Accordingly, as of December 31, 2022, the Company will be required to comply with the effective accounting standards as described in "Recently Issued Accounting Pronouncements," which the Company is currently evaluating.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. As we have operations in the United States and internationally, our market risk exposure is primarily a result of exposure due to potential changes in foreign currency exchange rates, inflation or interest rates. We do not hold financial instruments for trading purposes.

Foreign Currency Exchange Risk

Our revenues and expenses are primarily denominated in U.S. dollars, British Pounds and Euros; however, we also have significant intercompany balances denominated in the Norwegian Krone. For the nine months ended September 30, 2022 and 2021, we recorded a net gain of $3.6 million and a net loss of $3.0 million respectively, on foreign exchange transactions. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative financial instruments, but we may do so in the future if our exposure to foreign currency should become more significant. For business conducted outside of the United States, we have both revenue and costs incurred in the local currency of the subsidiary, creating a partial natural hedge. Changes to exchange rates have led to significant fluctuations in both our statement of operations and stockholders' equity balance from quarter to quarter. We will continue to reassess our foreign exchange exposure as we continue to grow our business globally. A uniform hypothetical 10% increase or decrease in the foreign currency exchange rates in comparison to the United States dollar would have resulted in a corresponding increase or decrease in revenue for the nine months ended September 30, 2022 and 2021 of approximately $7.0 million and $6.3 million, respectively. On September 30, 2021, we reclassified certain intercompany balances considered long-term in nature. Accordingly, foreign currency transaction gains and losses related to these balances are now being reported in the cumulative translation adjustment in shareholder's equity on the consolidated balance sheet since October 1, 2021.

Interest Rate Risk

We had cash and cash equivalents and short-term investments of $342.5 million and $369.8 million as of September 30, 2022 and December 31, 2021, respectively. Our cash and cash equivalents are held in cash deposits, money market funds and marketable securities. As of September 30, 2022, we held $204.0 million in short-term investments made up of commercial paper, asset-backed securities, corporate debt securities and U.S. government debt securities which are available-for-sale. Due to the short-term nature of these instruments, we do not believe that we have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates.

Our primary market risk exposure is changing interest rates. Interest rate risk is highly sensitive due to many factors, including U.S. monetary and tax policies, U.S. and international economic factors and other factors beyond our control. A hypothetical 10% change in interest rates would not have a material impact on our condensed consolidated financial statements.

Item 4. Controls and Procedures.
Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time, we may be subject to legal proceedings and claims that arise in the ordinary course of business, as well as governmental and other regulatory investigations and proceedings. In addition, third parties may from time to time assert claims against us in the form of letters and other communications. We are not currently a party to any legal proceedings that, if determined adversely to us, would, in our opinion, have a material and adverse effect on our business, financial condition or results of operations. Future litigation may be necessary to defend ourselves, our partners and our customers, to determine the scope, enforceability, and validity of third-party intellectual property or proprietary rights or to establish and protect our intellectual property or proprietary rights. The results of any current or future litigation cannot be predicted with certainty and there can be no assurances that favorable outcomes will be obtained, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management attention and resources and other factors.

Item 1A. Risk Factors.

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our unaudited condensed consolidated financial statements and related notes. Our business, financial condition, and results of operations could also be harmed by risks and uncertainties not currently known to us or that we currently do not believe are material. If any of the risks actually occur, our business, financial condition, and results of operations could be adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

Risk Factor Summary

The material risks that may affect our business, financial condition or results of operations include, but are not limited to, those relating to the following:

Risks Related to the Proposed Merger

- The announcement and pendency of our agreement to be acquired by affiliates of Thoma Bravo may have an adverse effect on our business and results of operations and our failure to complete the Merger could have an adverse effect on our business, financial condition, results of operations and stock price.
- While the Merger is pending, we are subject to business uncertainties and contractual restrictions that could harm our business relationships, financial condition, results of operations, and business.
- Litigation may arise in connection with the Merger, which could be costly, prevent consummation of the Merger, divert management's attention and otherwise harm our business.

Risks Related to Our Business and Industry

- We have a history of losses, and we expect to incur losses for the foreseeable future.
- We may not continue to grow on pace with historical rates.
- We face intense competition, especially from larger, well-established companies, and we may lack sufficient financial or other resources to maintain or improve our competitive position.
- If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service and customer satisfaction or adequately address competitive challenges.
- We have a limited operating history, which makes it difficult to predict our future results of operations.
- If we fail to innovate in response to rapid technological change, evolving industry standards, and changing customer needs, requirements or preferences, our business, financial condition, and results of operations could be adversely affected.
- If we are unable to efficiently acquire new customers, retain our existing customers or expand the level of adoption of our platform with our customers, our business, financial condition, and results of operations could be adversely affected.
- Our quarterly results are likely to fluctuate and as a result may adversely affect the trading price of our common stock.
- If our solutions have or are perceived to have defects, errors, or vulnerabilities, or if we otherwise fail or are perceived to fail to provide secure and frictionless user experiences, our brand and reputation could be harmed, which could adversely affect our business, financial condition, and results of operations.

- If we or our third-party service providers experience a security breach or incident that allows, or is perceived to allow, unauthorized access to our platform or our customers' data, our reputation, business, financial condition, and results of operations could be adversely affected.

Risks Related to Our Dependence on Third Parties

- If we are unable to build and maintain successful relationships with our partners, our business, financial condition and results of operations could be adversely affected.
- Defects in or the loss of access to software or services from third parties could increase our costs and adversely affect the quality of our platform.
- Certain estimates and information that we refer to publicly are based on information from third-party sources and we do not independently verify the accuracy or completeness of the data contained in such sources or the methodologies for collecting such data, and any real or perceived inaccuracies in such estimates and information may harm our reputation and adversely affect our business.

Risks Related to Our Intellectual Property

- We use open source software in our platform and offerings, which could negatively affect our ability to offer our platform and expose us to litigation or other actions.
- If we fail to adequately obtain, maintain, defend, protect, or enforce our intellectual property or proprietary rights, our competitive position could be impaired and we may lose valuable assets, generate less revenue, and incur costly litigation.
- If we cannot license rights to use technologies on reasonable terms, we may not be able to commercialize new products in the future.
- If we are subject to a claim that we infringe, misappropriate, or otherwise violate a third party's intellectual property rights, our business, financial condition or results of operations could be adversely affected.

Risks Related to Our Legal and Regulatory Environment

- Our business is subject to a wide range of laws and regulations, many of which are evolving, and failure to comply with such laws and regulations could harm our business, financial condition and results of operations.
- We are subject to stringent laws, rules, and regulations regarding privacy, data protection and information security. Any actual or perceived failure by us to comply with such laws, rules, and regulations, the privacy or security provisions of our privacy policy, our contracts or other legal or regulatory requirements could result in proceedings, actions, or penalties against us and materially adversely affect our business.

Risks Related to Ownership of Our Class A Common Stock

- We are an "emerging growth company" and the reduced disclosure requirements applicable to emerging growth companies may make our Class A common stock less attractive to investors.
- The dual-class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock (or options or other securities convertible into or exercisable for our capital stock) prior to the completion of our initial public offering, which will limit your ability to influence the outcome of important transactions, including a change in control.

Risks Related to the Proposed Merger

The announcement and pendency of our agreement to be acquired by affiliates of Thoma Bravo may have an adverse effect on our business and results of operations and our failure to complete the Merger could have an adverse effect on our business, financial condition, results of operations and stock price.

On October 10, 2022, ForgeRock entered into the Merger Agreement with Parent and Merger Sub. Completion of the Merger is subject to the satisfaction of certain terms and conditions set forth in the Merger Agreement, including (i) approval of the Merger Agreement by the requisite affirmative vote of ForgeRock's stockholders holding a majority of the outstanding voting power of ForgeRock's common stock; (ii) the absence of any order issued by any governmental entity of competent jurisdiction or any law applicable to the merger that, in each case, prevents, materially restrains, or materially impairs the consummation of the Merger; (iii) the expiration or termination of the waiting periods applicable to the Merger pursuant to the HSR Act, and the absence of any agreement with any governmental authority not to consummate the Merger, and (iv) all consents, approvals and filings required under certain specified FDI laws shall have been obtained or made, and all waiting periods (including any extensions thereof or any timing agreements with applicable governmental authorities) relating to the execution, delivery and performance of the Merger Agreement and the consummation of the Merger shall have expired or otherwise been terminated under any such law. There is no assurance that all of the various conditions will be satisfied, or that the Merger will be completed on the proposed terms, within the expected timeframe, or at all.

The Merger may be delayed, and may ultimately not be completed, due to a number of factors, including:

- the failure to obtain requisite stockholder approval to approve the Merger:
- the failure to obtain regulatory approvals from various governmental entities;
- potential future stockholder litigation and other legal and regulatory proceedings, which could prevent, materially restrain, or materially impair the consummation of the Merger; and
- the failure to satisfy the other conditions to the completion of the Merger, including the possibility that a Company material adverse effect would permit Parent not to close the Merger.

If the Merger does not close, we may suffer other consequences that could adversely affect our business, financial condition, results of operations, and stock price, and our stockholders would be exposed to additional risks, including:

- to the extent that the current market price of our stock reflects an assumption that the Merger will be completed, the market price of our class A common stock could decrease if the Merger is not completed;
- investor confidence in us could decline, stockholder litigation could be brought against us, relationships with existing and prospective customers, service providers, investors, lenders and other business partners may be adversely impacted, we may be unable to retain key personnel, and our operating results may be adversely impacted due to costs incurred in connection with the Merger;
- any disruptions to our business resulting from the announcement and pendency of the Merger, including adverse changes in our relationships with customers, suppliers, partners and employees, may continue or intensify in the event the Merger is not consummated or is significantly delayed;
- the risks related to the diversion of attention of ForgeRock management or employees during the pendency of the Merger;and
- the requirement that we pay Parent a termination fee under certain circumstances that give rise to the termination of the Merger Agreement.

There can be no assurance that our business, relationships with other parties, liquidity or financial condition will not be adversely affected, as compared to the condition prior to the announcement of the Merger, if the Merger is not consummated. Even if successfully completed, there are certain risks to our stockholders from the Merger, including:

- we may experience a departure of employees, prior to the closing of the Merger;
- the amount of cash to be paid under the Merger Agreement is fixed and will not be adjusted for changes in our business, assets, liabilities, prospects, outlook, financial condition or operating;
- results or in the event of any change in the market price of, analyst estimates of, or projections relating to, our class A common stock;
- receipt of the all-cash per share merger consideration under the Merger Agreement is taxable to stockholders that are treated as U.S. holders for U.S. federal income tax purposes; and
- if the Merger is completed, our stockholders will forego the opportunity to realize the potential long-term value of the successful execution of our current strategy as an independent company.

While the Merger is pending, we are subject to business uncertainties and contractual restrictions that could harm our business relationships, financial condition, results of operations, and business.

During the period prior to the closing of the Merger and pursuant to the terms of the Merger Agreement, our business is exposed to certain inherent risks and contractual restrictions that could harm our business relationships, financial condition, results of operations, and business, including:

- potential uncertainty in the marketplace, which could lead current and prospective customers to purchase products and services from other providers or delay purchasing from us;
- difficulties maintaining existing and/or establishing business relationships, including business relationships with significant customers, suppliers and partners;
- the possibility of disruption to our business and operations resulting from the announcement and pendency of the Merger, including diversion of management attention and resources;
- the inability to attract and retain key personnel and recruit prospective employees, and the possibility that our current employees could be distracted, and their productivity decline as a result, due to uncertainty regarding the Merger;
- the inability to pursue alternative business opportunities or make changes to our business pending the completion of the Merger, and other restrictions on our ability to conduct our business;
- our inability to freely issue securities, incur certain indebtedness, declare or authorize any dividend or distribution, or make certain material capital expenditures without Parent's approval;
- our inability to solicit other acquisition proposals during the pendency of the Merger;
- the amount of the costs, fees, expenses and charges related to the Merger Agreement and the Merger, including but not limited to the cost of any legal proceeding that may be instituted against us, which may materially and adversely affect our financial condition; and
- other developments beyond our control, including, but not limited to, changes in domestic or global economic conditions that may affect the timing or success of the Merger.

If any of these effects were to occur, it could adversely impact our business, cash flow, results of operations or financial condition, as well as the market price of our common stock and our perceived value, regardless of whether the Merger is completed.

Litigation may arise in connection with the Merger, which could be costly, prevent consummation of the Merger, divert management's attention and otherwise harm our business.

Regardless of the outcome of any future litigation related to the Merger, such litigation may be time-consuming and expensive and may distract our management from running the day-to-day operations of our business. The litigation costs and diversion of management's attention and resources to address the claims and counterclaims in any litigation related to the Merger may adversely affect our business, results of operations, prospects, and financial condition. If the Merger is not consummated for any reason, litigation could be filed in connection with the failure to consummate the Merger. Any litigation related to the Merger may result in negative publicity or an unfavorable impression of us, which could adversely affect the price of our class A common stock, impair our ability to recruit or retain employees, damage our relationships with our customers, suppliers, and other business partners, or otherwise harm our operations and financial performance.

Risks Related to Our Business and Industry

We have a history of losses, and we expect to incur losses in the future.

We have incurred net losses in each year since our inception. As of September 30, 2022 and December 31, 2021, we had an accumulated deficit of $313.6 million and $263.8 million, respectively. We expect to continue to incur net losses in the future. Because the market for our platform is rapidly evolving and has not yet reached widespread adoption, it is difficult for us to predict our future results of operations. We expect our operating expenses to continue to increase over the next several years as we hire additional personnel, particularly in sales and marketing, expand and improve the effectiveness of our distribution channels, expand our operations and infrastructure, both domestically and internationally, pursue business combinations and continue to develop our platform. As we operate as a public company and transition back to a private company, we may incur additional legal, accounting, and other expenses that we did not incur historically. If our revenue does not increase to offset these increases in our operating expenses, we will not be profitable in future periods. Any failure by us to achieve or sustain profitability on a consistent basis could cause the value of our common stock to decline.

We may not continue to grow on pace with historical rates.

We have experienced rapid growth historically, and we may not be able to sustain such growth rates. Thus, you should not rely on our key business metrics or results of operations for any previous quarterly or annual period (or the growth rate relating to such metrics or results) as any indication of future periods. In particular, our revenue growth rate and ARR has fluctuated in prior periods. We expect our revenue growth rate to continue to fluctuate over the short term. In future periods, our revenue growth and ARR could slow or our revenue could decline for a number of reasons, including slowing demand for or adoption of our platform and offerings, increasing competition, any failure to gain or retain customers or partners, a decrease in the growth of our overall market, changes to technology, or our failure, for any reason, to continue to capitalize on growth opportunities. In addition, our revenue growth rate and ARR may experience increased volatility due to global societal and macroeconomic conditions (e.g., the COVID-19 pandemic and its aftermath, inflationary pressures, supply chain disruptions, the military conflict in Ukraine and related sanctions against Russia and Belarus, higher interest rates and strength of the U.S. dollar relative to other currencies). As a result, our past financial performance should not be considered indicative of our future performance. If our revenue growth rate and ARR declines, investors' perceptions of our business and the market price of our Class A common stock could be adversely affected. Additionally, our ARR does not adjust for the timing impact of revenue recognition for specific performance obligations identified within a contract. Therefore, our ARR growth in any given period may not result in a similar growth rate for revenue. Our revenue is also affected by the overall growth in our business and changes in our revenue mix of self-managed subscriptions and SaaS subscriptions. As a result, our year-over-year growth rates for total revenue may not be comparable due to changes in our revenue mix.

We face intense competition, especially from larger, well-established companies, and we may lack sufficient financial or other resources to maintain or improve our competitive position.

The identity and access management market is intensely competitive, and we expect competition to increase in the future from established competitors and new market entrants. We face competition from (1) legacy providers such as CA Technologies, IBM and Oracle, (2) cloud-only providers such as Okta, (3) companies that provide a subset of functionality across identity, access and governance such as Okta, Ping Identity (acquired by affiliates of Thoma Bravo in October 2022), and SailPoint, and (4) homegrown solutions that are designed to solve a limited identity use case. We also compete with other companies that offer a broad array of IT solutions that compete in our market.

With the continued increase in merger and acquisition transactions in the technology industry, particularly transactions involving cloud-based technologies, there is a significant likelihood that we will compete with other large technology companies in the future. For example, other technology companies could acquire or develop an identity and access management or digital identity platform that competes directly with our platform. These companies have significant name recognition, considerable resources and existing IT infrastructures and powerful economies of scale and scope, which allow them to rapidly develop and deploy new solutions. Many of our existing competitors have, and some of our potential competitors could have, substantial competitive advantages such as greater name recognition and brand awareness, longer operating histories, larger customer bases, larger sales and marketing budgets and resources, broader distribution and established relationships with partners and customers, greater professional services and customer support resources, greater resources to make acquisitions and enter into strategic partnerships, lower labor and research and development costs, larger and more mature intellectual property portfolios and substantially greater financial, technical and other resources. Certain of our competitors may also have greater ease of implementation of their products with customers in our market, as well as flexibility, scale, and breadth of integration points.

In addition, some of our larger competitors have substantially broader product offerings and leverage their relationships based on other products they offer or incorporate functionality into existing products to gain business in a manner that discourages users from purchasing our offerings, including through selling at zero or negative margins, product bundling or closed technology platforms. Potential customers may also prefer to purchase from their existing suppliers rather than a new supplier regardless of product performance or features. Our larger competitors often have broader product lines and market focus and are less susceptible to downturns in a particular market. Our competitors may also seek to repurpose their existing offerings to provide identity solutions with subscription models. Conditions in our market could change rapidly and significantly as a result of technological advancements, partnering by our competitors or continuing market consolidation. Further, industry trends, such as the migration to cloud and the transition to Zero Trust, could give competitors an advantage in the market if they are better positioned to address such industry trends. Additionally, start-up companies that innovate and large competitors that are making significant investments in research and development may invent similar or superior products and technologies that compete with our solutions or solution packages.

Consolidation in the markets in which we compete may affect our competitive position. This is particularly true in circumstances where customers are seeking to obtain a broader set of solutions and services than we are currently able to provide. In addition, some of our competitors may enter into new alliances with each other or may establish or strengthen cooperative relationships with system integrators, third-party consulting firms, or other parties. Any such consolidation, acquisition, alliance, or cooperative relationship could lead to pricing pressure and loss of our market share and could result in a competitor with greater financial, technical, marketing, service, and other resources, all of which could harm our ability to compete. Furthermore, organizations may be more willing to incrementally add solutions to their existing infrastructure from competitors than to replace their existing infrastructure with our offerings. Any failure to meet and address the foregoing could adversely affect our business, financial condition, and results of operations.

If we fail to manage our growth effectively, we may be unable to execute our business plan, maintain high levels of service and customer satisfaction, or adequately address competitive challenges.

We have experienced, and may continue to experience, rapid growth and organizational change, which has placed, and may continue to place, significant demands on our management and our operational and financial resources. Our ability to manage our growth effectively and to integrate new employees and technologies into our existing business will require us to continue to expand our operational and financial infrastructure and to continue to effectively integrate, develop, and motivate a large number of employees (new or existing), while maintaining the beneficial aspects of our culture.

Continued growth could challenge our ability to develop and improve our operational, financial, and management controls, enhance our reporting systems and procedures, recruit, train, and retain highly skilled personnel, and maintain customer satisfaction. In addition, we have encountered and will continue to encounter risks and challenges frequently experienced by growing companies in evolving industries, including market acceptance of our platform and offerings, intense competition, and our ability to manage our costs and operating expenses. We must continue to improve and expand our IT and financial infrastructure, operating, and administrative systems and relationships with various partners and other third parties. Additionally, we have international operations in but not limited to Canada, France, Germany, Norway, the United Kingdom, Australia, New Zealand, and Singapore, and we may continue to expand our international operations in these jurisdictions or other countries in the future. Our expansion has placed, and our expected future growth will continue to place, a significant strain on our managerial, research and development, sales and marketing, administrative, financial, and other resources. If we are unable to manage our continued growth successfully, our business, financial condition, and results of operations could suffer. In addition, as we expand our business, it is important that we continue to maintain a high level of customer service and satisfaction. As our customer base continues to grow, we will need to expand our account management, customer service, and other personnel, and our network of partners, to provide personalized account management and customer service. If we are not able to continue to provide high levels of customer service, our reputation, as well as our business, financial condition, and results of operations could be adversely affected.

We have a limited operating history, which makes it difficult to predict our future results of operations.

We were formed in 2009 and we have since frequently expanded our platform features and offerings and evolved our pricing methodologies. Our limited operating history and evolving business make it difficult to evaluate our future prospects and the risks and challenges we may encounter. These risks and challenges include our ability to:

- accurately forecast our revenue and plan our expenses;
- increase the number of new customers and retain and expand relationships with existing customers;
- successfully introduce new offerings and services;
- successfully compete with current and future competitors;
- successfully expand our business in existing markets and enter new markets and geographies;
- anticipate and respond to macroeconomic and technological changes and changes in the markets in which we operate;
- maintain and enhance the value of our reputation and brand;
- maintain and expand our relationships with partners;
- successfully execute on our sales and marketing strategies;
- adapt to rapidly evolving trends in the ways consumers interact with technology;
- hire, integrate, and retain talented technology, sales, customer service, and other personnel; and
- effectively manage rapid growth in our personnel and operations.

If we fail to address the risks and difficulties that we face, including those associated with the challenges listed above as well as those described elsewhere in this "Risk Factors" section, our business, financial condition, and results of operations could be adversely affected. Further, because we have limited historical financial data and operate in a rapidly evolving market, any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more predictable market. We have encountered in the past, and will encounter in the future, risks and uncertainties frequently experienced by growing companies with limited operating histories in rapidly changing industries. If our assumptions regarding these risks and uncertainties, which we use to plan and operate our business, are incorrect or change, or if we do not address these risks successfully, our results of operations could differ materially from our expectations and our business, financial condition, and results of operations could be adversely affected. Additionally, we recently launched our SaaS offering, and it is in the early stages of customer adoption. Our SaaS offering may prove to be difficult to scale, or encounter other difficulties and such difficulties could cause our results of operations to differ materially from our expectations and our business, financial condition, and results of operations could be adversely affected.

If we fail to innovate in response to rapid technological change, evolving industry standards, and changing customer needs, requirements, or preferences, our business, financial condition, and results of operations could be adversely affected.

The identity and access management market is characterized by rapid technological change, evolving industry standards, and changing regulations, as well as changing customer needs, requirements and preferences. The success of our business will depend, in part, on our ability to anticipate, adapt, and respond effectively to these changes on a timely and cost-effective basis. In addition, as our customers' technologies and business plans grow more complex, we expect them to face new and increasing challenges. Our customers require that our platform effectively identify and respond to these challenges without disrupting the performance of our customers' IT systems or interrupting their business operations. As a result, we must continually modify and improve our offerings in response to changes in our customers' IT infrastructures and operational needs or end-user preferences. The success of any enhancement to our existing offerings or the deployment of new offerings depends on several factors, including the timely completion and market acceptance of our enhancements or new offerings. Any enhancement to our existing offerings or new offerings that we develop and introduce involves significant commitment of time and resources and is subject to a number of risks and challenges including:

- ensuring the timely release of new offerings, features and platform enhancements;
- adapting to emerging and evolving industry standards, technological developments by our competitors and customers, and changing regulatory requirements;
- interoperating effectively with existing or newly-introduced technologies, systems, or applications of our existing and prospective customers;
- resolving defects, errors, or failures in our platform or offering(s);
- extending the operation of our offerings and services to new and evolving platforms, operating systems, and hardware products, such as mobile and IoT devices; and
- managing new offerings, features, and service strategies for the markets in which we operate.

If we are not successful in managing these risks and challenges, or if our new offerings, platform upgrades and services are not competitive or do not achieve market acceptance, our business, financial condition, and results of operations could be adversely affected.

If we are unable to efficiently acquire new customers, retain our existing customers, or expand the level of adoption of our platform with our customers, our business, financial condition, and results of operations could be adversely affected.

To continue to grow our business, it is important that we continue to acquire new customers. Our success in adding new customers depends on numerous factors, including our ability to (1) offer a compelling identity and access management platform and effective offerings, (2) execute our sales and marketing strategy, (3) attract, effectively train and retain new sales, marketing, professional services and support personnel, (4) develop or expand relationships with partners, (5) expand into new geographies and vertical markets, (6) deploy our platform or offerings for new customers, (7) provide quality customer support once deployed, (8) effectively manage and forecast our customer count, and (9) expand our use cases for our existing customers.

It is important to our continued growth that we retain our existing customers. Our customers have no obligation to renew their subscription agreements, and our customers may decide not to renew these agreements with a similar contract period, at the same prices and terms or with the same or a greater number of identities, or at all. Our customer retention or our customers' use of our platform and services may decline or fluctuate as a result of a number of factors, including our customers' satisfaction with our platform and offerings, our customer support and professional services, our prices and pricing plans, the competitiveness of other identity and access management offerings and services, reductions in our customers' spending levels, user adoption of our platform and offerings, deployment success, utilization rates by our customers, new releases, and changes to our platform or offerings. Additionally, new consolidations, acquisitions, alliances or cooperative relationships involving one or more of our customers may lead such customers not to renew their existing subscriptions with us.

Our ability to increase revenue also depends in part on our ability to increase the number of identities managed by our platform and sell more use cases or offerings to our existing and new customers. Our ability to increase sales to existing customers depends on several factors, including their experience with implementing our offerings and using our platform and the existing offerings they have implemented, their ability to integrate our offerings with existing technologies and our pricing model. As we expand our market reach, we may experience difficulties in gaining traction and raising awareness among potential customers regarding the critical role that our offerings play in securing their businesses and we may face more competitive pressure in such markets. Additionally, our existing customers may delay or fail to pay us under our commercial agreements. Our Net Retention Rate may fluctuate from period to period and is dependent upon new ARR and renewals from existing customers, of which new ARR is impacted by the mix of new ARR from existing and new customers in any given period. We cannot accurately predict our renewals and Net Retention Rate given the diversity of our customer base, the size of our industry, and geography. Our renewals and Net Retention Rate may decline or fluctuate as a result of a number of factors, many of which are outside our control, including the business strength or weakness of our customers, customer usage, the ability of our customers to quickly integrate our products into their businesses, the ability of our customers to continually find new uses for our products within their businesses, and customer satisfaction with our products, platform capabilities, and customer support.

If we are unable to successfully acquire new customers, retain our existing customers or expand sales to existing customers, our business, financial condition, and results of operations could be adversely affected.

Our quarterly results are likely to fluctuate and as a result may adversely affect the trading price of our Class A common stock.

Our quarterly results of operations, including our key business metrics, are likely to vary significantly in the future, and period-to-period comparisons of our results of operations may not be meaningful. Accordingly, the results for any one quarter are not necessarily an accurate indication of future performance. Our quarterly financial results may fluctuate due to a variety of factors, many of which are outside of our control. Factors that may cause fluctuations in our quarterly financial results include:

- the Merger, the pendency of the Merger, or the failure to complete the Merger;
- the mix of revenue attributable to our various offerings, in particular, our SaaS and subscription offerings;
- the length of our sales cycles;
- the weighted average duration of our contracts in any given period;
- the mix of revenue attributable to larger transactions as opposed to smaller transactions, and the associated volatility and timing of our transactions;
- the level of demand for our platform;
- our ability to attract new customers, obtain renewals from existing customers, and upsell or otherwise increase our customers' use of our platform;
- the timing and success of new product introductions by us or our competitors or any other change in the competitive landscape of our market;
- pricing pressure as a result of competition or otherwise;
- seasonal buying patterns for IT spending;
- changes in RPOs, due to seasonality, the timing of and compounding effects of renewals, invoice duration, size and timing, new business linearity between quarters and within a quarter or average contract term, all of which may impact implied growth rates;
- errors in our forecasting of the demand for our offerings, which could lead to lower than projected revenue, increased costs or both;
- increases in and timing of sales and marketing and other operating expenses that we may incur to grow and expand our operations and to remain competitive;

- security breaches or incidents impacting, technical difficulties with or interruptions to, the delivery and use of our platform and offerings;
- our ability to comply with laws, rules, regulations, industry standards, contractual obligations, and other legal requirements relating to privacy, data protection and information security, including the GDPR, and the California Consumer Privacy Act, or the CCPA;
- costs related to the acquisition of businesses, talent, technologies, or intellectual property, including potentially significant amortization costs and possible write-downs;
- our ability to effectively obtain, maintain, protect, defend, and enforce our intellectual property rights;
- credit, liquidity, financial or other difficulties confronting our channel partners;
- adverse litigation judgments, settlements of litigation and other disputes or other litigation-related or dispute-related costs;
- the impact of new accounting pronouncements and associated system implementations;
- changes in the legislative or regulatory environment;
- fluctuations in foreign currency exchange rates;
- expenses related to real estate, including our office leases, and other fixed expenses; and
- general economic conditions in domestic or international markets, including the economic impact of inflation, supply chain disruptions, competition, the COVID-19 pandemic and its aftermath and other geopolitical uncertainty and instability, such as the military conflict in Ukraine and related sanctions against Russia and Belarus, resulting sanctions imposed by the U.S. and other countries, and retaliatory actions taken by Russia in response to such sanctions.

Any one or more of the factors above may result in significant fluctuations in our results of operations. In addition, we generally experience seasonality based on when we enter into agreements with customers, which has historically been the most frequent in our fourth quarter, and our quarterly results of operations generally fluctuate from quarter-to-quarter depending on customer purchasing habits. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in our revenue, due to the fact that we recognize subscription revenue over the term of the subscription. We expect that seasonality will continue to affect our results of operations in the future and may reduce our ability to predict cash flow and optimize the timing of our operating expenses.

The variability and unpredictability of our quarterly results of operations or key business metrics could result in our failure to meet our expectations or those of securities analysts or investors. If we fail to meet or exceed such expectations for these or any other reasons, the market price of our common stock could decline, and we could face costly lawsuits, including securities class action suits.

If our solutions have or are perceived to have defects, errors, or vulnerabilities, or if we otherwise fail or are perceived to fail to provide secure and frictionless user experiences, our brand and reputation could be harmed, which could adversely affect our business, financial condition, and results of operations.

Real or perceived defects, errors, or vulnerabilities in our software, the failure of our solution to secure digital identities, including any stored or transmitted data and integrated applications, services, and APIs, the failure to protect against advanced or newly developed exploits or discovered vulnerabilities, misconfiguration of our solutions, or the failure of customers to take action on attacks could harm our reputation and adversely affect our business, financial condition, and results of operations. Because our platform is complex, it may contain defects or errors that are not detected until after deployment. We cannot assure you that our products will protect against all security vulnerabilities, exploits, or cyberattacks, especially in light of the rapidly changing cybersecurity landscape that our offerings seek to address. Due to a variety of both internal and external factors, including, without limitation, defects or misconfigurations of our solutions, our offerings could become vulnerable to security incidents that cause them to fail to secure identities, to protect against vulnerabilities and exploits, to secure data that is stored or transmitted, and to secure integrated applications, services, and APIs. In addition, due to a variety of both internal and external factors, including real or perceived defects, errors, vulnerabilities, or misconfiguration in our software, our solutions may fail to deliver a frictionless experience or may significantly or negatively degrade the end user experience which could lead to customer and end user dissatisfaction that could harm our reputation and adversely affect our business, financial condition, and results of operations.

Moreover, as our platform is adopted by an increasing number of enterprises and governmental entities, it is possible that the individuals and organizations behind advanced cyberattacks will begin to focus on finding ways to defeat our platform. If this happens, our customers could be specifically targeted by attackers, which could result in vulnerabilities in our platform or undermine the market acceptance of our platform or solutions or our reputation as a provider of identity and access management solutions.

Companies are increasingly subject to a wide variety of attacks on their systems and networks on an ongoing basis. In addition to threats from traditional computer "hackers," malicious code (such as malware, viruses, worms and ransomware), employee or contractor theft, fraud, misconduct or misuse, password spraying, phishing, social engineering attacks and denial-of-service attacks, we and our third-party service providers now also face threats from sophisticated nation-state and nation-state supported actors who engage in attacks (including advanced persistent threat intrusions) that add to the risks to our systems (including those hosted on GCP or other cloud services), internal networks, our customers' systems, and the information that they store and process. Despite our efforts to create security barriers to such threats, it is virtually impossible for us to entirely mitigate these risks, in particular, as the frequency and sophistication of cyberattacks increases. For example, the risks of cyberattacks may be increased in connection with Russia's activities in Ukraine. If any of our customers experiences a cyberattack while using our platform or offerings, or believes that this has occurred, such customer could be disappointed with our platform, regardless of whether our offerings or services were implicated in failing to prevent such attack. Real or perceived security breaches of, or security incidents impacting, our customers' networks could cause disruption or damage to their networks or other negative consequences and could result in negative publicity to us, damage to our reputation, and other customer relations issues, and our business, financial condition, and results of operations could be adversely affected.

If we or our third-party service providers experience a data security breach or network incident that allows, or is perceived to allow, unauthorized access to our platform or our customers' data, our reputation, business, financial condition, and results of operations could be adversely affected.

As a provider of identity and security solutions, we pose a potential attack vector for cyberattacks. The security measures we have integrated into our internal systems and platform, which are designed to detect unauthorized access or activity and prevent or minimize security breaches and incidents, may not function as expected or may not be sufficient to protect our internal networks and platform against certain attacks and other security breaches and incidents. In addition, techniques used to sabotage or to obtain unauthorized access to networks in which data is stored or through which data is transmitted change frequently, become more complex over time and generally are not recognized until launched against a target. As a result, we and our third-party service providers may be unable to anticipate these techniques or implement adequate preventative measures quickly enough to prevent either an electronic intrusion into our systems or services or a compromise of customer data, and we and they may face difficulties or delays in identifying or otherwise responding to any potential security breach or incident. Additionally, our remediation efforts and other response to any potential security breach or incident may not be successful or timely.

Third parties may attempt to fraudulently induce employees, contractors, customers, or our customers' users into disclosing sensitive information, such as user names, passwords, or other information or otherwise compromise the security of our internal networks, electronic systems, or physical facilities in order to gain access to our data or our customers' data, which could result in significant legal and financial exposure, a loss of confidence in the security of our platform, interruptions, or malfunctions in our operations, account lock outs, and, ultimately, harm to our business, financial condition, and results of operations.

Our customers' use of ForgeRock to access business systems and store data concerning, among other things, their employees, contractors, partners and customers is essential to their use of our platform, which collects, uses, stores, transmits, and otherwise processes customers' proprietary information and personal data. If a security breach or incident impacting customer data or systems on our platform were to occur, as a result of third-party action, technology limitations, employee or contractor error, malfeasance or otherwise, and the confidentiality, integrity or availability of our customers' data or systems was disrupted, or if this was perceived to have occurred, we could face claims, demands, and litigation by, and incur significant liability to our customers and to individuals or businesses whose information was being stored by our customers, could face regulatory or governmental investigations, inquiries, or other proceedings, and our platform may be perceived as less desirable, any of which could negatively affect our business and damage our reputation. Further, and notwithstanding any contractual rights or remedies we may have, because we do not control our third-party service providers, including their security measures and the processing of data by our third-party service providers, we cannot ensure the integrity or security of measures they take to protect customer information and prevent data loss.

In addition, security breaches or incidents impacting our platform, including from ransomware, could result in a risk of loss or unauthorized disclosure of critical information, including personal data, or the denial of access to this information, which, in turn, could lead to enforcement actions, litigation, regulatory or governmental audits, investigations, inquiries, or other proceedings and possible significant liability, and increased requests by individuals regarding their personal data. Actual or perceived security breaches and incidents could also damage our relationships with and ability to attract customers and partners, and trigger service availability, indemnification, and other contractual obligations. Security breaches and incidents may also cause us to incur significant investigation, mitigation, remediation, notification and other expenses, including necessitating that we put in place additional measures designed to prevent further security breaches or incidents. We may be required to expend significant capital and financial resources to protect against such threats or to alleviate problems caused by security breaches and incidents. Furthermore, as a provider of identity and security solutions, any such breach or incident, including a breach of our customers' systems, could compromise systems secured by our products, creating system disruptions or slowdowns and exploiting security vulnerabilities of our or our customers' systems, and the information stored on our or our customers' systems could be improperly accessed, publicly disclosed, altered, lost, stolen, or otherwise processed, which could result in a loss of intellectual property and subject us to claims, demands, and litigation from private parties, as well as regulatory or governmental investigations and other proceedings, fines, penalties, and other liabilities, harm to our reputation and market position, and financial harm. While we maintain cybersecurity insurance, our insurance may be insufficient to cover all liabilities incurred in these incidents, and any incidents may result in loss of, or increased costs of, our cybersecurity insurance. We also cannot ensure that our existing insurance coverage will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims related to a security incident or breach, or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect our reputation and our business, financial condition, and results of operations. We also cannot ensure that any limitations of liability provisions in our customer agreements, contracts with third-party service providers and other contracts for a security lapse or breach or other security-related matter would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim.

Any breach or incident, or any perceived breach or incident, of our systems, our customers' systems, or other systems or networks secured by our products, whether or not any such breach or incident is due to a vulnerability in our platform, may also undermine confidence in our platform or our industry and result in damage to our reputation and brand, negative publicity, loss of partners, customers and sales, increased costs to remedy any problem, costly litigation, and other liability. In addition, a breach or violation of the security measures of one of our partners could result in the exfiltration of confidential corporate information or other data that may provide additional avenues of attack, and if a high profile security breach or incident occurs with respect to a comparable identity and access management provider, our customers and potential customers may lose trust in identity and access management providers generally, which could adversely impact our ability to retain existing customers or attract new ones, potentially causing a negative impact on our business. Any of these negative outcomes could negatively impact market acceptance of our platform and our business, financial condition, and results of operations could be adversely affected.

The global COVID-19 pandemic has harmed and could continue to harm our business, financial condition, and results of operations.

The global COVID-19 pandemic and efforts to mitigate its impact have significantly curtailed the movement of people, goods and services worldwide, including in the geographic areas in which we conduct our business operations and from which we generate our revenue. It has also caused societal and economic disruption and financial market volatility, resulting in business shutdowns, and reduced business activity. We believe that the COVID-19 pandemic has had a modest negative impact on our business and results of operations, primarily as a result of:

- for certain enterprises, delaying or pausing digital transformation and expansion projects and negatively impacting IT spending, which has caused some potential customers to delay or forgo purchases of subscriptions for our platform and services and some existing customers to fail to renew subscriptions, reduce their usage or fail to expand their usage of our platform due to the COVID-19 pandemic's impact on their business;
- restricting our sales operations and marketing efforts, reducing the effectiveness of such efforts in some cases and delaying or lengthening our sales cycles; and
- delaying the delivery of professional services and training to our customers.

The COVID-19 pandemic may cause us to continue to experience the foregoing challenges in our business in the future and could have other effects on our business, including disrupting our ability to develop new offerings and enhance existing offerings, market, and sell our products and conduct business activities generally.

In light of the uncertain and rapidly evolving situation relating to the spread of COVID-19, we have taken precautionary measures intended to reduce the risk of the virus spreading to our employees, our customers and the communities in which we operate, and we may take further actions as required by government entities or that we determine are in the best interests of our employees, customers, partners, and third-party service providers. In particular, governmental authorities have previously instituted shelter-in-place policies or other restrictions in many jurisdictions in which we operate, including in the San Francisco Bay Area where our headquarters is located, which policies required most of our employees to work remotely. We expect to take a measured and careful approach to have employees returning to offices and travel for business. These precautionary measures and policies could negatively impact product innovation and development and employee and organizational productivity, training, and collaboration, or otherwise disrupt our business operations. The further continuation of working remotely may expose us to increased risks of security breaches or incidents. We may need to enhance the security of our platform and offerings, our data, and our internal IT infrastructure, which may require additional resources and may not be successful.

In addition, the COVID-19 pandemic has disrupted and may continue to disrupt the operations of our customers and partners, particularly our customers in industries, including travel and entertainment, that have been especially impacted by the pandemic. Other disruptions or potential disruptions resulting from the COVID-19 pandemic include restrictions on our personnel and the personnel of our partners to travel and access customers for training, delays in product development efforts, and additional government requirements or other incremental mitigation efforts that may further impact our business, financial condition, and results of operations. The extent to which the COVID-19 pandemic continues to impact our business and results of operations will also depend on future developments that are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the disease, the duration and spread of the outbreak, the scope of travel restrictions imposed in geographic areas in which we operate, mandatory or voluntary business closures, the impact on businesses and financial and capital markets and the extent and effectiveness of the development and distribution of vaccines and other actions taken throughout the world to contain the virus or treat its impact. A further extended period of global supply chain and economic disruption as a result of the COVID-19 pandemic could have a material negative impact on our business, financial condition, and results of operations, though the full extent and duration is uncertain. To the extent the COVID-19 pandemic adversely affects our business, financial condition, and results of operations it is likely to also have the effect of heightening many of the other risks described in this “Risk Factors” section.

If our platform and offerings fail to help our customers achieve and maintain compliance with certain government regulations and industry standards, our business, financial condition, and results of operations could be adversely affected.

The success of our platform depends, in large part, on its ability to help our customers achieve and maintain compliance with certain industry standards and government regulations, such as the Sarbanes-Oxley Act, HIPAA, the CCPA, the GDPR, and the GLBA, and these types of regulations continue to proliferate globally. These industry standards may change with little or no notice, including changes that could make them more or less onerous for businesses. In addition, governments may also adopt new laws or regulations, or make changes to existing laws or regulations, that could affect whether our customers believe our platform assists them in maintaining compliance with such laws or regulations. If our platform and offerings fail to expedite our customers’ compliance initiatives, our customers may lose confidence in our platform and could switch to products offered by our competitors. In addition, if government regulations and industry standards related to digital identity and security are changed in a manner that makes such regulations and industry standards less onerous, our customers may view compliance as less critical to their businesses, and our customers may be less willing to purchase our platform and offerings. If we are unable to manage the foregoing risks, our business, financial condition, and results of operations could be adversely affected.

We recognize substantially all of our revenue from subscriptions over the term of the relevant subscription period, and as a result, downturns or upturns in sales may not be immediately reflected in our results of operations.

We recognize revenue from the non-license element of subscriptions and support and maintenance ratably over the term of the subscription or support and maintenance agreements with our customers, which is generally one to three years. As a result, a substantial portion of the revenue that we report in each period will be derived from the recognition of deferred revenue relating to agreements entered into in prior periods. Consequently, the full impact of a decline in new sales or renewals in any one period may not be immediately reflected in our results of operations for such period. Accordingly, the effect of significant downturns in sales and market acceptance of and demand for our platform and changes in our rate of renewals may not be fully reflected in our results of operations until future periods.

We also intend to increase our investment in research and development, sales and marketing, and general and administrative functions, and other areas to grow our business. These costs are generally expensed as incurred (with the exception of sales commissions), as compared to a significant portion of our revenue, which is recognized ratably in future periods. We may recognize the costs associated with such increased investments earlier than some of the anticipated benefits and the return on these investments may be lower, or may develop more slowly, than we expect, which could adversely affect our business, financial condition and results of operations.

Our sales cycle is frequently long and unpredictable, and our sales efforts require considerable time and expense.

Since we primarily focus on selling our offerings to enterprises, the timing of our sales can be difficult to predict. We and our partners are often required to spend significant time and resources to better educate and familiarize potential customers with the value proposition of our platform and offerings. Customers often view the purchase of our platform and offerings as a strategic decision and significant investment and, as a result, frequently require considerable time to evaluate, test, and qualify our platform and offerings prior to purchase. In particular, for customers in highly-regulated industries, the selection of a security solution provider is a critical business decision due to the sensitive nature of these customers' data, which results in particularly extensive evaluations prior to the selection of information security vendors. During the sales cycle, we expend significant time and money on sales and marketing and contract negotiation activities, which may not result in a sale. Additional factors that may influence the length and variability of our sales cycle include:

- the discretionary nature of purchasing and budget cycles and decisions;
- lengthy purchasing approval processes;
- the industries in which our customers operate;
- the evaluation of competing solutions and offerings during the purchasing process;
- time, complexity and expense involved in replacing existing solutions;
- announcements or planned introductions of new offerings, features or functionality by our competitors or of new offerings, features or functionality by us; and
- evolving functionality demands.

If our efforts in pursuing sales and customers are unsuccessful, or if our sales cycles lengthen, our revenue could be lower than expected, which would adversely affect our business, financial condition, and results of operations.

Our international operations and continued international expansion subject us to additional costs and risks, which could adversely affect our business, financial condition, and results of operations.

We generated a substantial portion of our revenue outside the United States. Our growth strategy depends, in part, on our continued international expansion. We are continuing to adapt to and develop strategies to address international markets, but there is no guarantee that such efforts will be successful. Additionally, our international sales and operations are subject to a number of risks, including the following:

- unexpected costs and errors in the localization of our platform, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- lack of familiarity and burdens of complying with foreign laws, legal standards, privacy standards, regulatory requirements, tariffs, and other barriers;
- laws and business practices favoring local competitors or commercial parties;
- costs and liabilities related to compliance with foreign data privacy, protection and security laws, rules, regulations, standards and enforcement, including the GDPR;
- fluctuations in exchange rates that may increase the volatility of our foreign-based revenue and expense;
- risk that our foreign employees or partners will fail to comply with U.S. and foreign laws;
- practical difficulties of obtaining, maintaining, defending, protecting, and enforcing intellectual property rights in countries with fluctuating laws and standards and reduced or varied protection for intellectual property rights in some countries;
- restrictive governmental actions focusing on cross-border trade, including taxes, trade laws, tariffs, import and export restrictions, controls, or quotas, barriers, sanctions, custom duties, or other trade restrictions;
- unexpected changes in legal and regulatory requirements;
- difficulties in managing partners;
- differing technology standards;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- difficulties in managing and staffing international operations, including compliance with differing employer-employee relationships and local employment laws;

- political, economic and social instability, war (including the military conflict in Ukraine, resulting sanctions imposed by the U.S. and other countries and retaliatory actions taken by Russia in response to such sanctions), armed conflict, or terrorist activities;
- health pandemics or epidemics, such as COVID-19, influenza, and other highly communicable diseases or viruses; and
- potentially adverse tax consequences, including the complexities of foreign value added tax (or other tax) systems, and restrictions on the repatriation of earnings.

Operating in international markets also requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required in establishing operations in other countries will produce desired levels of revenue or profitability. Any of the foregoing factors could harm our ability to generate revenue outside of the United States and, consequently, adversely affect our business, financial condition, and results of operations.

Some of our business partners also have international operations and are subject to the risks described above. Even if we are able to successfully manage the risks of international operations, our business may be adversely affected if our business partners are not able to successfully manage these risks.

We may face exposure to foreign currency exchange rate fluctuations.

A substantial portion of our international customer contracts are denominated in local currencies. In addition, the majority of our international costs are denominated in local currencies. As a result, fluctuations in the value of the U.S. Dollar and foreign currencies may affect our results of operations when translated into U.S. Dollars. We do not currently engage in currency hedging activities to limit the risk of exchange rate fluctuations. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

If we fail to offer high-quality customer support, our business and reputation will suffer.

Once our platform is deployed, our customers rely on our support services to resolve any issues that may arise. High-quality customer education and customer support is important for the successful marketing and sale of our platform and offerings and for the renewal of existing customers. We must successfully assist our customers in deploying our platform and offerings, resolving performance issues, and addressing interoperability challenges with a customer's existing network and security infrastructure. Many enterprises, particularly large enterprises, have complex networks, and require high levels of focused support, including premium support offerings, to fully realize the benefits of our platform. Any failure by us to maintain the expected level of support could reduce customer satisfaction and hurt our customer retention, particularly with respect to our large enterprise customers. To the extent that we are unsuccessful in hiring, training and retaining adequate support resources, our ability to provide adequate and timely support to our customers will be negatively impacted, and our customers' satisfaction with our platform could be adversely affected.

Given our growth, we may in the future engage third parties to provide support services to our customers. Any failure to properly train or oversee such contractors could result in a poor customer experience, which could have an adverse impact on our reputation and ability to renew subscriptions or engage new customers. In addition, some of our contracts with our larger customers require consent in the event we subcontract the services we provide thereunder. The process of obtaining consent to subcontract support services with these customers could be lengthy and there can be no assurance such consent would be provided.

Furthermore, as we sell our platform and offerings internationally, our support organization faces additional challenges, including those associated with delivering support, training and documentation in languages other than English. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, business, financial condition, and results of operations, and adversely impact our ability to sell our platform or offerings to existing and prospective customers. The importance of high-quality customer support will increase as we expand our business and pursue new customers.

If we do not set optimal prices for our platform and offerings, our business, financial condition, and results of operations could be adversely affected.

In the past, we have at times adjusted our prices either for individual customers in connection with long- term agreements or for a particular offering. We expect that we may need to change our pricing in future periods. Further, as competitors introduce new products that compete with ours or reduce their prices, we may be unable to attract new customers or retain existing customers based on our historical pricing. As we expand internationally, we also must determine the appropriate price to enable us to compete effectively in each respective geographic region. In addition, if our mix of offerings changes, then we may need to, or choose to, revise our pricing model. If we do not optimally price our platform and offerings and manage risks related to changing our prices or pricing model, our business, financial condition, and results of operations could be adversely affected.

If we are unable to manage the costs associated with our professional services, our results of operations could be adversely affected.

We offer professional services associated with implementing our platform and training customers on the use of our platform, and our revenue from professional services carries a negative gross margin compared to our subscription revenue. We price our professional services to be attractive to customers because we believe that our professional services help achieve customer success on our platform, which assists us in retaining customers and expanding our relationships with them. If we are unable to manage and improve the margin associated with our professional services, our business, financial condition, and results of operations could be adversely affected.

If our platform or offerings do not effectively interoperate with our customers' existing or future IT infrastructures, our business would be harmed.

Our success depends in part on the interoperability of our platform or offerings with our customers' IT infrastructures, including third-party operating systems, applications, data and devices that we have not developed and do not control. Third-party products and services are constantly evolving, and we may not be able to modify our offerings to ensure their compatibility with those of other third parties following development changes. Any changes in such infrastructure, operating systems, applications, data or devices that degrade the functionality of our platform or offerings or give preferential treatment to competitive solutions could adversely affect the adoption and usage of our platform. We may not be successful in quickly or cost effectively adapting our platform or offerings to operate effectively with these operating systems, applications, data, or devices. If it is difficult for our customers to access and use our platform or offerings, or if our platform or offerings cannot connect a broadening range of applications, data and devices, then our customer growth and retention may be harmed, and our business, financial condition, and results of operations could be adversely affected. We rely on open standards for many integrations between our platform and third-party applications that our customers utilize, and in other instances on such third parties making available the necessary tools for us to create interoperability with their applications. If application providers were to move away from open standards, or if a critical, widely-utilized application provider were to adopt proprietary integration standards and not make them available for the purposes of facilitating interoperability with our platform, the utility of our platform and offerings for our customers would be decreased, our offerings may become less marketable, less competitive, or obsolete, and our business, financial condition, and results of operations could be adversely affected.

Real or perceived errors, failures, vulnerabilities or bugs in our platform, including deployment complexity, could harm our business, financial condition, and results of operations.

Errors, failures, vulnerabilities or bugs have occurred and may continue to occur in our platform, especially when updates are deployed or new platform offerings and functionalities are rolled out. Our platform is often used in connection with large- scale computing environments with different operating systems, system management software, equipment and networking configurations, which may cause errors or failures of products, or other aspects of the computing environment into which our platform is deployed. In addition, deployment of our platform into complicated, large-scale computing environments may expose errors, failures, vulnerabilities or bugs in our platform. Any such errors, failures, vulnerabilities or bugs may be difficult to detect and may not be found until after they are deployed to our customers. Further, our platform and offerings operate in conjunction with, and we are dependent upon, numerous third-party products and components. There have been and may continue to be significant attacks on certain third-party providers, and we cannot guarantee that our or our third-party providers' systems and networks have not been breached or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us and our services. If there is a security vulnerability, error, or other bug in one of these third-party products or components and if there is a security exploit targeting them, we could face increased costs, liability claims, reduced revenue, or harm to our reputation or competitive position. More generally, real or perceived errors, failures, vulnerabilities or bugs in our platform, or delays in or difficulties implementing our platform releases, could result in negative publicity, or corruption of, or unauthorized access to, customer data, loss of or delay in market acceptance of our platform, a decrease in customer satisfaction, confidence or adoption rates, delayed product introductions, compromised ability to protect the data (including personal data) of our customers and our data and intellectual property, an inability to provide some or all of our services, loss of competitive position, or claims by customers for losses sustained by them, all of which could adversely affect our business, financial condition, and results of operations. Such errors, bugs, vulnerabilities or defects could also be exploited by malicious actors and result in exposure of data of users on our platform, or otherwise result in a security breach or other security incident. We may need to expend significant financial and development resources to analyze, correct, eliminate, or work around errors or defects or to address and eliminate vulnerabilities.

If there are interruptions or performance problems associated with our technology or infrastructure, our customers may experience service outages or delays in the deployment of our platform.

Our continued growth depends on the ability of our existing and potential customers to access our platform 24 hours a day, seven days a week, without interruption or degradation of performance. We have in the past and may in the future experience disruptions, outages and other performance problems with our infrastructure due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints, distributed denial-of-service attacks or other security-related incidents. In some instances, we may not be able to identify the cause or causes of these performance problems immediately or in short order. We may not be able to maintain the level of service uptime and performance required by our customers, especially during peak usage times and as our offerings become more complex and our user traffic increases. If our platform is unavailable or if our customers are unable to access our offerings or deploy them within a reasonable amount of time, or at all, our business would be harmed. Frequent or persistent interruptions in our products and services could cause customers to believe that our products and services are unreliable, leading them to switch to our competitors or to otherwise avoid our products and services.

The adverse effects of any service interruptions on our reputation and financial condition may be disproportionately heightened due to the nature of our business and the fact that our customers expect continuous and uninterrupted access to our offerings and have a low tolerance for interruptions of any duration. Since our customers rely on our offerings to provide and secure access to their IT infrastructures and to support customer- facing applications, any outage on our platform would impair the ability of our customers to operate their businesses, which would negatively impact our brand, reputation and customer satisfaction. Additionally, our insurance policies may be insufficient to cover a claim made against us by any customers affected by any disruptions, outages, or other performance or infrastructure problems.

Moreover, we depend on services from various third parties to maintain our cloud infrastructure and deploy our offerings, such as GCP, which hosts our platform. If a third-party service provider fails to provide sufficient capacity to support our platform or otherwise experiences service outages, such failure could interrupt our customers' access to our services, which could adversely affect their perception of our platform's reliability. Any disruptions in these services, including as a result of actions outside of our control, would significantly impact the continued performance of our offerings. In the event that our service agreements are terminated with our cloud infrastructure providers, or there is a lapse of service, interruption of internet service provider connectivity or damage to such providers' facilities, we could experience interruptions in access to our platform as well as delays and additional expense in arranging new facilities and services. In the future, these services may not be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of these services could result in decreased functionality of our offerings until equivalent technology is either developed by us or, if available from another provider, is identified, obtained and integrated into our infrastructure. We may also be unable to effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology.

Our platform is accessed by a large number of customers, often at the same time. As we continue to expand the number of our customers and offerings available to our customers, our technology may not be able to scale to accommodate the increased capacity requirements, which may result in interruptions or delays in service. In addition, the failure of third-party cloud infrastructure providers, third-party internet service providers or other third-party service providers whose services are integrated with our platform to meet our capacity requirements could result in interruptions or delays in access to our platform or impede our ability to scale our operations. Any of the above circumstances or events may harm our reputation, cause customers to terminate their agreements with us, impair our ability to obtain subscription renewals from existing customers, impair our ability to grow our customer base, result in the expenditure of significant financial, technical and engineering resources, subject us to financial penalties and liabilities under our service level agreements, and otherwise could adversely affect our business, financial condition, and results of operations.

System interruption and the lack of integration, redundancy and scalability in these systems and infrastructures may harm our business, financial condition, and results of operations.

Our success depends, in part, on our ability to maintain the integrity of our systems and infrastructure, including websites, information and related systems. System interruption and a lack of integration and redundancy in our information systems and infrastructure may adversely affect our ability to operate websites, process and fulfill transactions, respond to customer inquiries and generally maintain cost-efficient operations. We may experience occasional system interruptions that make some or all systems or data unavailable or prevent us from efficiently providing access to our platform. We also rely on third-party computer systems, broadband and other communications systems and service providers in connection with providing access to our platform generally. Any interruptions, outages or delays in our systems and infrastructure, our business or third parties, or deterioration in the performance of these systems and infrastructure, could impair our ability to provide access to our platform. Fire, flood, power loss, telecommunications failure, hurricanes, tornadoes, earthquakes, other natural disasters, acts of war (including the military conflict in Ukraine) or terrorism and similar events or disruptions may damage or interrupt computer, broadband or other communications systems and infrastructure at any time. Any of these events could cause system interruption, delays and loss of critical data, including personal data, and could prevent us from providing access to our platform. While we have backup systems for certain aspects of these operations, disaster recovery planning by its nature cannot be sufficient for all eventualities. In addition, we may not have adequate insurance coverage to compensate for losses from a major interruption. If any of these events were to occur, it could harm our business, financial condition, and results of operations.

If we fail to efficiently maintain, protect and enhance our brand, our ability to attract new customers could be impaired and our business, financial condition, and results of operations could be adversely affected.

We believe that developing and maintaining awareness of our brand in a cost-effective manner is critical to achieving widespread adoption of our platform and offerings and is critical to our ability to attract new customers. Furthermore, we believe that the importance of brand recognition will increase as competition in our market increases. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts, our ability to provide reliable and useful offerings at competitive prices, our ability to maintain our customers' trust and our ability to successfully differentiate our services and platform capabilities from competitive products and services, any of which we may not be able to do effectively. In the past, our efforts to build our brand have involved significant expenses. Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, or incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract new customers or retain our existing customers to the extent necessary to realize a sufficient return on our brand-building efforts, and our business, financial condition, and results of operations could be adversely affected.

Failure to effectively develop and expand our marketing and sales capabilities could harm our ability to grow our customer base and achieve broader market acceptance of our platform.

Our ability to increase our customer base and achieve broader market acceptance of our platform depends, in part, on our ability to expand our marketing and sales operations. We plan to continue expanding our direct sales force and engaging additional channel, system integrator and technology partners, both domestically and internationally. This expansion will require us to invest significant financial and other resources. Our business will be harmed if our efforts do not generate a corresponding increase in revenue. We may not achieve anticipated revenue growth from expanding our direct sales force if we are unable to hire and develop talented direct sales personnel, if our new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time or if we are unable to retain our existing direct sales personnel. We also may not achieve anticipated revenue growth from our partners if we are unable to attract and retain additional motivated partners, if any existing or future partners fail to successfully market, resell, implement or support our platform or offerings for their customers, or if they represent multiple providers and devote greater resources to market, resell, implement and support the products and solutions of other providers. For example, some of our partners also sell or provide integration and administration services for our competitors' products, and if such partners devote greater resources to marketing, reselling and supporting competing products, our business, financial condition, and results of operations could be adversely affected.

If we cannot maintain our corporate culture as we grow, our business could be adversely affected.

We believe that our corporate culture has been a critical component to our success and that our culture creates an environment that drives and perpetuates our overall business strategy. We have invested substantial time and resources in building our team and we expect to continue to hire as we expand, including with respect to our international operations. As we grow as a public company and grow internationally, we may find it difficult to maintain our corporate culture. Any failure to preserve our culture could negatively affect our future success, including our ability to recruit and retain personnel and effectively execute on our business strategy.

We depend on our management team and other highly skilled personnel, and we may fail to attract, retain, motivate, or integrate highly skilled personnel, which could adversely affect our business, financial condition, and results of operations.

We depend on the continued contributions of our management team, key employees, and other highly skilled personnel. Our management team and key employees are at-will employees, which means they may terminate their relationship with us at any time. The loss of the services of any of our key personnel or delays in hiring required personnel, particularly within our research and development and engineering teams, could adversely affect our business, financial condition, and results of operations.

Our future success also depends, in part, on our ability to continue to attract and retain highly skilled personnel. Competition for these personnel in the San Francisco Bay Area, where our headquarters is located, and in other locations where we maintain offices, is intense, and the industry in which we operate is generally characterized by significant competition for skilled personnel as well as high employee attrition. We may not be successful in attracting, retaining, training or motivating qualified personnel to fulfill our current or future needs. Competitors for technical talent increasingly seek to hire our employees, and the increased availability of work-from-home arrangements, accelerated by the COVID-19 pandemic, has both intensified and expanded competition while also reducing regional salary differences. In addition, changes in immigration policies may further limit the pool of available talent and impair our ability to recruit and hire technical and professional talent. We have intensified our efforts to recruit and retain talent. These efforts have increased our expenses, and they may not be successful in attracting, retaining, and motivating the workforce necessary to deliver on our strategy. Additionally, the former employers of our new employees may attempt to assert that our new employees or we have breached their legal obligations, which may be time-consuming, distracting to management and may divert our resources. To help attract, retain, and motivate qualified employees, we use share-based awards, such as RSUs, and performance-based cash incentive awards. Sustained declines in our stock price, or lower stock price performance relative to competitors, can reduce the retention value of our share-based awards. Our employee hiring and retention also depend on our ability to build and maintain a diverse and inclusive workplace culture and be viewed as an employer of choice. To the extent our compensation programs and workplace culture are not viewed as competitive, our ability to attract, retain, and motivate employees can be weakened, which could harm our results of operations. If we fail to attract and integrate new personnel or retain and motivate our current personnel, our business, financial condition, and results of operations could be adversely affected.

We may be unable to make acquisitions and investments, successfully integrate acquired companies into our business, or our acquisitions and investments may not meet our expectations, any of which could adversely affect our business, financial condition, and results of operations.

We have in the past acquired, and we may in the future acquire or invest in, businesses, offerings, technologies, or talent that we believe could complement or expand our platform, enhance our technical capabilities or otherwise offer growth opportunities. We may not be able to fully realize the anticipated benefits of such acquisitions or investments. The pursuit of potential acquisitions may divert the attention of management and cause us to incur significant expenses related to identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

There are inherent risks in integrating and managing acquisitions. If we acquire additional businesses, we may not be able to assimilate or integrate the acquired personnel, operations, solutions and technologies successfully, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits or synergies from the acquired business due to a number of factors, including, without limitation:

- delays or reductions in customer purchases for both us and the acquired business;
- disruption of partner and customer relationships;
- potential loss of key employees of the acquired company;
- claims by and disputes with the acquired company's employees, customers, stockholders or third parties;
- unknown liabilities or risks associated with the acquired business, product or technology, such as contractual obligations, potential security vulnerabilities of the acquired company and its products and services, potential intellectual property infringement, misappropriation or other violation, costs arising from the acquired company's failure to comply with legal or regulatory requirements and litigation matters;
- acquired technologies or products may not comply with legal or regulatory requirements and may require us to make additional investments to make them compliant;
- acquired technologies or products may not be able to provide the same support service levels that we generally offer with our other offerings;
- they could be viewed unfavorably by our partners, our customers, our stockholders or securities analysts;
- unforeseen difficulties relating to integration or other expenses; and
- future impairment of goodwill or other acquired intangible assets.

Acquisitions also increase the risk of unforeseen legal liability, including for potential violations of applicable law or industry rules and regulations, arising from prior or ongoing acts or omissions by the acquired businesses that are not discovered by due diligence during the acquisition process. We may have to pay cash, incur debt or issue equity or equity-linked securities to pay for any future acquisitions, each of which could adversely affect our financial condition or the market price of our common stock. The sale of equity or issuance of equity-linked debt to finance any future acquisitions could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations. Any of the foregoing could adversely affect our business, financial condition, and results of operations.

We track certain operational metrics with internal systems and tools and do not independently verify such metrics. Certain of our operational metrics are subject to inherent challenges in measurement, and any real or perceived inaccuracies in such metrics may adversely affect our business and reputation.

We track certain operational metrics, including ARR, Net Retention Rate, and number of large customers, with internal systems and tools that are not independently verified by any third party and which may differ from estimates or similar metrics published by third parties due to differences in sources, methodologies or the assumptions on which we rely. Our internal systems and tools have a number of limitations, and our methodologies for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including the metrics we publicly disclose. If the internal systems and tools we use to track these metrics undercount or overcount performance or contain algorithmic or other technical errors, the data we report may not be accurate. While these numbers are based on what we believe to be reasonable estimates of our metrics for the applicable period of measurement, there are inherent challenges in measuring these metrics. Limitations or errors with respect to how we measure data or with respect to the data that we measure may affect our understanding of certain details of our business, which could affect our long-term strategies. If our operating metrics are not accurate representations of our business, if investors do not perceive our operating metrics to be accurate or if we discover material inaccuracies with respect to these figures, we expect that our business, financial condition, and results of operations could be adversely affected.

We have substantial indebtedness under our term loan facility and our obligations thereunder may limit our operational flexibility or otherwise adversely affect our financial condition.

In September 2021, we entered into our A&R Loan Agreement (hereinafter Amended and Restated Loan Agreement) that provides for senior secured credit consisting of term loans. As of September 30, 2022, the aggregate principal amount of our outstanding indebtedness under our Amended and Restated Loan Agreement was $40.0 million and no further amounts are available to be drawn at this time. There can be no assurance that we will be able to repay this indebtedness when due, or that we will be able to refinance this indebtedness on acceptable terms or at all. Our indebtedness could adversely impact us. For example, these obligations could, among other things:

- make it difficult for us to pay other obligations;
- increase our cost of borrowing;
- make it difficult to obtain favorable terms for any necessary future financing for working capital, capital expenditures, investments, acquisitions, debt service requirements, or other purposes;
- restrict us from making acquisitions or cause us to make divestitures or similar transactions;
- adversely affect our liquidity and result in an adverse effect on our financial condition upon repayment of the indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to service and repay the indebtedness, reducing the amount of cash flow available for other purposes;
- increase our vulnerability to adverse and economic conditions;
- place us at a competitive disadvantage compared to our less leveraged competitors; and
- limit our flexibility in planning for and reacting to changes in our business.

Restrictions imposed by our outstanding indebtedness and any future indebtedness may limit our ability to operate our business and to finance our future operations or capital needs or to engage in acquisitions or other business activities necessary to achieve growth.

The terms of our outstanding indebtedness restrict us from engaging in specified types of transactions. Subject to certain exceptions, these covenants restrict our ability to, among other things:

- incur additional indebtedness;
- create or incur liens;
- engage in consolidations, amalgamations, mergers, liquidations, dissolutions or dispositions;
- sell, transfer or otherwise dispose of assets;
- pay dividends and distributions on, or repurchase or redeem, capital stock; and
- make acquisitions, investments, loans, advances or capital contributions.

We cannot guarantee that we will be able to maintain compliance with these covenants or, if we fail to do so, that we will be able to obtain waivers from the lenders and/or amend the covenants. Even if we comply with all of the applicable covenants, the restrictions on the conduct of our business could adversely affect our business by, among other things, limiting our ability to take advantage of financing opportunities, mergers, acquisitions, investments, and other corporate opportunities that may be beneficial to our business. Even if our Amended and Restated Loan Agreement is terminated, any additional debt that we incur in the future could subject us to similar or additional covenants.

A breach of any of the covenants in the Amended and Restated Loan Agreement could result in an event of default, which, if not cured or waived, could trigger acceleration of our indebtedness and an increase in the interest rates applicable to such indebtedness, and may result in the acceleration of or default under any other debt we may incur in the future to which a cross-acceleration or cross-default provision applies. The acceleration of the indebtedness under our Amended and Restated Loan Agreement or under any other indebtedness could have an adverse effect on our business, results of operations, and financial condition. In the event of any default under our existing or future debt instruments, the applicable lenders could elect to terminate borrowing commitments and declare all borrowings and loans outstanding, together with accrued and unpaid interest and any fees and other obligations, to be due and payable. In addition, we have granted a security interest in a significant portion of our assets to secure our obligations under our Amended and Restated Loan Agreement. During the existence of an event of default under our Amended and Restated Loan Agreement, the applicable lenders could exercise their rights and remedies thereunder, including by way of initiating foreclosure proceedings against any assets constituting collateral for our obligations.

We may be unable to generate sufficient cash flow to satisfy our debt service obligations, which could have an adverse effect on our business, financial condition, and results of operations.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and results of operations, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory, and other factors beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, or interest on our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay strategic acquisitions and partnerships, capital expenditures, and payments on account of other obligations, seek additional capital, restructure or refinance our indebtedness, or sell assets. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our ability to restructure or refinance our debt will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our debt could be at higher interest rates and could require us to comply with more onerous covenants, which could further restrict our business operations. In addition, we cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms, or at all.

If we are unable to repay or otherwise refinance our indebtedness when due, or if any other event of default is not cured or waived, the applicable lenders could accelerate our outstanding obligations or proceed against the collateral granted to them to secure that indebtedness, which could force us into bankruptcy or liquidation. In the event the applicable lenders accelerate the repayment of our borrowings, we and our subsidiaries may not have sufficient assets to repay that indebtedness. Any acceleration of amounts due under the agreements governing our amended and restated term loan facility or the exercise by the applicable lenders of their rights under the security documents could have a material and adverse effect on our business.

Despite our level of indebtedness, we and our subsidiaries may still be able to incur substantially more debt, including off-balance sheet financing, contractual obligations and general and commercial liabilities. This could further exacerbate the risks to our financial condition described above.

We and our subsidiaries may incur significant additional indebtedness in the future, including additional tranches of term loans and/or term loan increases and/or revolving credit facilities, contractual obligations, and general and commercial liabilities. Although the terms of our Amended and Restated Loan Agreement contain restrictions on the incurrence of additional indebtedness, such restrictions are subject to a number of significant exceptions and qualifications and any additional indebtedness incurred in compliance with such restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness. If we and our subsidiaries incur significant additional indebtedness or other obligations, the related risks that we face could increase.

We may require additional capital, which may not be available on terms acceptable to us, or at all.

Historically, we have funded our operations and capital expenditures primarily through equity issuances, debt instruments and cash generated from our operations. To support our growing business, we must have sufficient capital to continue to make significant investments in our platform. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to those of our common stock, and our existing stockholders may experience dilution. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities.

We evaluate financing opportunities from time to time, and our ability to obtain financing will depend on, among other things, our development efforts, business plans and operating performance, and the condition of the capital markets at the time we seek financing. We cannot be certain that additional financing will be available to us on favorable terms, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited, and our business, financial condition, and results of operations could be adversely affected. In September 2021, we entered into our Amended and Restated Loan Agreement, which provides for term loans, and we must adhere to the covenants contained therein.

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

US GAAP is subject to interpretation by the Financial Accounting Standards Board, the "FASB", the SEC and other various bodies formed to promulgate and interpret appropriate accounting principles. Changes in accounting principles applicable to us, or varying interpretations of current accounting principles, could have a significant effect on our reported results of operations. Further, any difficulties in the implementation of changes in accounting principles, including the ability to modify our accounting systems, could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

Our estimates or judgments relating to our critical accounting policies may be based on assumptions that change or prove to be incorrect, which could cause our results of operations to fall below expectations of securities analysts and investors, resulting in a decline in the market price of our Class A common stock.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as described in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the recognition and measurement of certain assets and liabilities and revenue and expenses that is not readily apparent from other sources. Our accounting policies that involve judgment include those related to revenue recognition, the period of benefit for deferred sales commissions, assumptions used for estimating the fair value of common stock and to calculate stock-based compensation, certain accrued liabilities, and valuation allowances associated with income taxes. If our assumptions change or if actual circumstances differ from those in our assumptions, our results of operations could be adversely affected, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the market price of our Class A common stock.

We may fail to maintain an effective system of disclosure controls and internal control over financial reporting, which could impair our ability to produce timely and accurate financial statements or comply with applicable regulations.

As a public company, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, Sarbanes-Oxley Act, and the listing standards of the New York Stock Exchange, or NYSE. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. We have expended, and anticipate that we will continue to expend, significant resources in order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting.

Our current controls and any new controls that we develop may become inadequate because of changes in the conditions in our business, including increased complexity resulting from any further international expansion. Further, weaknesses in our disclosure controls or our internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting could also adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely adversely affect the market price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on NYSE. We are not currently required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act and are therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. As a public company, we will be required to provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second annual report on Form 10-K.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until after we are no longer an "emerging growth company." At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could have an adverse effect on our business, financial condition, and results of operations, and could cause a decline in the market price of our common stock. We expect to lose our "emerging growth company" status as of December 31, 2022.

Our business could be adversely affected by economic downturns.

Prolonged economic uncertainties or downturns could adversely affect our business, financial condition, and results of operations. Negative conditions in the general economy in either the United States or abroad, including conditions resulting from financial and credit market fluctuations, changes in economic policy, trade uncertainty, including changes in tariffs, sanctions, international treaties and other trade restrictions, the occurrence of a natural disaster or global public health crisis, such as the COVID-19 pandemic, or armed conflicts, such as the military conflict in Ukraine, resulting sanctions imposed by the U.S. and other countries, and retaliatory actions taken by Russia in response to such sanctions, could cause a decrease in corporate spending on digital identity offerings in general and negatively affect the growth of our business.

These conditions could make it extremely difficult for our customers and us to forecast and plan future business activities accurately and could cause our customers to reevaluate their decision to purchase access to our platform, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. For example, the impact of the COVID-19 pandemic on the current environment may in the future cause difficulty in hiring and retaining talent or cause our customers to reduce their spend, or duration of, their contracts with us, or request concessions including extended payment terms or better pricing. Further, during challenging economic times, our customers may face issues in gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us, if at all. If that were to occur, we may be required to increase our allowance for doubtful accounts, which would adversely affect our results of operations.

A substantial downturn in any of the industries in which our customers operate may cause firms to react to worsening conditions by reducing their capital expenditures in general or by specifically reducing their spending on digital identity offerings. Customers in these industries may delay or cancel projects or seek to lower their costs by renegotiating vendor contracts. To the extent purchases of access to our platform are perceived by customers and potential customers to be discretionary, our revenue may be disproportionately affected by delays or reductions in general digital identity spending.

We cannot predict the timing, strength or duration of any economic slowdown, instability or recovery, generally or within any particular industry or geography. Any economic downturns of the general economy or industries in which we operate would adversely affect our business, financial condition, and results of operations. For example, the full impact of the COVID-19 pandemic is unknown at this time but could result in adverse changes in our results of operations for an unknown period of time.

Our business could be adversely affected by pandemics, natural disasters, political crises or other unexpected events.

A significant natural disaster, such as an earthquake, fire, hurricane, tornado, flood or significant power outage, could disrupt our operations, mobile networks, the Internet or the operations of our third-party technology providers. In particular, our corporate headquarters is located in the San Francisco Bay Area, a region known for seismic activity. In addition, any unforeseen public health crises, such as the COVID-19 pandemic, political crises, such as terrorist attacks, war and other political instability, such as the military conflict in Ukraine, resulting sanctions imposed by the U.S. and other countries and retaliatory actions taken by Russia in response to such sanctions, or other catastrophic events, whether in the United States or abroad, can continue to adversely affect our operations or the economy as a whole. The impact of any natural disaster, act of terrorism or other disruption to us or our third- party providers' abilities could result in decreased demand for our platform or a delay in the provision of our platform, which would adversely affect our business, financial condition, and results of operations. All of the aforementioned risks would be further increased if our disaster recovery plans prove to be inadequate.

Risks Related to Our Dependence on Third Parties

If we are unable to build and maintain successful relationships with our partners, our business, financial condition and results of operations could be adversely affected.

We employ a go-to-market business model whereby a meaningful portion of our revenue is generated by sales through our strategic global channel partners, including global strategic consulting firms and global systems integrators, that further expand the reach of our direct sales force into additional geographies, sectors and industries. We provide certain of our partners with specific training and programs to assist them in selling access to our platform, and our deal cycles are sometimes protracted due to our partners' involvement. If our partners are unsuccessful in marketing and selling access to our platform, it would limit our expansion into certain geographies, sectors and industries. If we are unable to develop and maintain effective sales incentive programs for our partners, we may not be able to incentivize these partners to sell access to our platform to customers.

Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources. Our competitors may be effective in causing third parties to favor their products or services over subscriptions to our platform.

In addition, acquisitions of such partners by our competitors could result in a decrease in the number of our current and potential customers, as these partners may no longer facilitate the adoption of our applications by potential customers. Further, some of our partners are or may become competitive with certain of our offerings and may elect to no longer integrate with our platform. If we are unsuccessful in establishing or maintaining our relationships with third parties, our ability to compete in the marketplace or to grow our revenue could be impaired, and our results of operations may suffer. Even if we are successful, we cannot ensure that these relationships will result in increased customer adoption and usage of our platform or increased revenue. If our existing relationships with our partners are disrupted or terminated for any of these factors, our business, financial condition, and results of operations could be adversely affected.

Defects in or the loss of access to software or services from third parties could increase our costs and adversely affect the quality of our platform.

We rely on technologies from third parties to operate critical functions of our business, including cloud infrastructure services such as GCP, customer relationship management services, support software and development hardware. Our business would be disrupted if any of the third-party software or services we use, or functional equivalents, were unavailable due to extended outages or interruptions or because they are no longer available on commercially reasonable terms or prices. In each case, we would be required to either seek licenses to software or services from other parties and redesign our platform and offerings to function with such software or services or develop substitutes ourselves, which would result in increased costs and could result in delays in our offering launches and the release of new platform offerings until equivalent technology can be identified, licensed or developed, and integrated into our platform. Furthermore, we might be forced to limit the features available on our platform. Any delays and feature limitations could adversely affect our business, financial condition, and results of operations.

Certain estimates and information that we refer to publicly are based on information from third-party sources and we do not independently verify the accuracy or completeness of the data contained in such sources or the methodologies for collecting such data, and any real or perceived inaccuracies in such estimates and information may harm our reputation and adversely affect our business.

Certain estimates and information that we refer to publicly, including general expectations concerning our industry and the market in which we operate and addressable market size, are based to some extent on information provided by third-party providers. This information involves a number of assumptions and limitations, and although we believe the information from such third-party sources is reliable, we have not independently verified the accuracy or completeness of the data contained in such third-party sources or the methodologies for collecting such data. If there are any limitations or errors with respect to such data or methodologies, or if investors do not perceive such data or methodologies to be accurate, or if we discover material inaccuracies with respect to such data or methodologies, our business, financial condition, and results of operations could be adversely affected.

Risks Related to Our Intellectual Property

We use open source software in our platform and offerings, which could negatively affect our ability to offer our platform and expose us to litigation or other actions.

We use open source software in our platform and offerings and expect to use more open source software in the future. In certain circumstances, we also make available, upon customer request, the source code of the open source portions of our software. From time to time, there have been claims challenging the ownership of open source software against companies that incorporate open source software into their products. However, the terms of many open source licenses have not been interpreted by U.S. or foreign courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our platform and offerings. As a result, we could be subject to lawsuits by parties claiming ownership of what we believe to be open source software, or claiming that software we developed using such open source software is a derivative work of open source software and demanding the release of portions of our source code, or otherwise seeking to enforce the terms of the applicable open source license. Litigation could be costly for us to defend, have a negative effect on our financial condition and results of operations or require us to devote additional research and development resources to change our platform and offerings.

In addition, if we were to combine our proprietary software offerings with open source software in a certain manner, we could, under certain of the open source licenses, be required to release the source code of our proprietary software to the public. While we monitor our use of open source software and try to ensure that none is used in a manner that would require us to disclose our proprietary source code or that would otherwise breach the terms of an open source agreement, such use could inadvertently occur, or could be claimed to have occurred, in part because open source license terms are often ambiguous. This would allow our competitors to create similar products with less development effort and time. If we inappropriately use open source software, or if the license terms for open source software that we use change, we may be required to re-engineer our platform or offerings, incur additional costs, discontinue the sale of some or all of our platform or take other remedial actions.

In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or assurance of title or controls on origin of the software. There is typically no support available for open source software, and we cannot ensure that the authors of such open source software will implement or push updates to address security risks or will not abandon further development and maintenance. In addition, many of the risks associated with usage of open source software, such as the lack of warranties or assurances of title, cannot be eliminated, and could, if not properly addressed, negatively affect our business. We have established processes to help alleviate these risks, including a review process for screening requests from our development organizations for the use of open source software, but we cannot be sure that all of our use of open source software is in a manner that is consistent with our current policies and procedures, or will not subject us to liability. Any of these risks could be difficult to eliminate or manage and, if not addressed, could have an adverse effect on our business, financial condition, and results of operations.

If we fail to adequately obtain, maintain, defend, protect or enforce our intellectual property or proprietary rights, our competitive position could be impaired and we may lose valuable assets, generate less revenue and incur costly litigation.

Our success is dependent, in part, upon protecting our intellectual property, proprietary information and technology. We rely, or may in the future rely, on a combination of patents, copyrights, trademarks, service marks, trade secret laws in the United States and certain other jurisdictions and contractual restrictions to establish and protect our proprietary rights, all of which provide only limited protection. However, the steps we take to protect our intellectual property may be inadequate and we will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Various factors outside our control pose a threat to our intellectual property rights, as well as to our products, services and technologies. For example, we may fail to obtain effective intellectual property protection, or the efforts we have taken to protect our intellectual property rights may not be sufficient or effective, and any of our intellectual property rights may be challenged, which could result in them being narrowed in scope or declared invalid or unenforceable.

We make business decisions about when to seek patent protection for a particular technology and when to rely upon trade secret protection, and the approach we select may ultimately prove to be inadequate. There can be no assurance our intellectual property rights will be sufficient to protect against others offering products or services that are substantially similar to ours and compete with our business or that unauthorized parties may attempt to copy aspects of our technology and use information that we consider proprietary. For example, it is possible that third parties, including our competitors, may obtain patents relating to technologies that overlap or compete with our technology. If third parties obtain patent protection with respect to such technologies, they may assert that our technology infringes their patents and seek to charge us a licensing fee or otherwise preclude the use of our technology.

We rely in part on trade secrets, proprietary know-how and other confidential information to maintain our competitive position. We attempt to protect our intellectual property, technology and confidential information by requiring our employees, contractors, consultants, corporate collaborators, advisors and other third parties who develop intellectual property on our behalf to enter into confidentiality and invention assignment agreements and third parties we share information with to enter into nondisclosure and confidentiality agreements. However, we cannot guarantee that we have entered into such agreements with each party who has developed intellectual property on our behalf and each party that has or may have had access to our confidential information, know-how and trade secrets, and no assurance can be given that these agreements will be effective in controlling access to and distribution of our intellectual property, trade secrets, platform or offerings and proprietary and confidential information. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our platform or offerings. These agreements may be insufficient or breached, or may not effectively prevent unauthorized access to or unauthorized use, disclosure, misappropriation or reverse engineering of, our confidential information, intellectual property, or technology. Moreover, these agreements may not provide an adequate remedy for breaches or in the event of unauthorized use or disclosure of our confidential information or technology, or infringement of our intellectual property. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret or know-how is difficult, expensive, and time-consuming, and the outcome is unpredictable. In addition, trade secrets and know-how can be difficult to protect and some courts inside and outside the U.S. are less willing or unwilling to protect trade secrets and know-how. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor or other third party, we would have no right to prevent them from using that technology or information to compete with us, and our competitive position would be adversely harmed. The loss of trade secret protection could make it easier for third parties to compete with our products and services by copying functionality. Additionally, individuals not subject to invention assignment agreements may make adverse ownership claims to our current and future intellectual property, and, to the extent that our employees, independent contractors or other third parties with whom we do business use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

Despite our precautions, it may be possible for unauthorized third parties to copy our platform or offerings and use information that we regard as proprietary to create products that compete with ours. Some license provisions protecting against unauthorized use, copying, transfer and disclosure of our platform or offerings may be unenforceable under the laws of certain jurisdictions and foreign countries. Further, the laws of some countries do not protect intellectual property and proprietary rights to the same extent as the laws of the United States, and mechanisms for enforcement of intellectual property rights in some foreign countries may be inadequate. Any of our intellectual property rights may be challenged or circumvented by others or invalidated or held unenforceable through administrative process or litigation in the United States or in foreign jurisdictions. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights are uncertain and any changes in, or unexpected interpretations of, intellectual property laws may compromise our ability to enforce our trade secrets and intellectual property rights. To the extent we expand our international activities, our exposure to unauthorized copying and use of our platform or offerings and proprietary information may increase. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing, misappropriating, or otherwise violating our technology and intellectual property.

To protect our intellectual property rights, we may be required to spend significant time, money, and resources to maintain, monitor, and protect these rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Such litigation could be costly, time consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Additionally, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our platform or offerings, impair the functionality of our platform or offerings, delay introductions of new offerings, result in our substituting inferior or more costly technologies into our platform and offerings, or injure our reputation.

If we cannot license rights to use technologies on reasonable terms, we may not be able to commercialize new products in the future.

In the future, we may identify additional third-party intellectual property that we may need to license to conduct our business, including to develop or commercialize new products or services. However, such licenses may not be available on acceptable terms or at all. The licensing or acquisition of third-party intellectual property rights is a competitive area, and several more established companies may pursue strategies to license or acquire third-party intellectual property rights that we may consider attractive or necessary. These established companies may have a competitive advantage over us due to their size, capital resources and greater development or commercialization capabilities. In addition, companies that perceive us to be a competitor may be unwilling to assign or license rights to us. Even if such licenses are available, we may be required to pay the licensor substantial royalties based on sales of our products and services. Such royalties are a component of the cost of our products or services and may affect the margins on our products and services. In addition, such licenses may be non-exclusive, which could give our competitors access to the same intellectual property licensed to us. If we are unable to enter into the necessary licenses on acceptable terms or at all, if any necessary licenses are subsequently terminated, if our licensors fail to abide by the terms of the licenses, if our licensors fail to prevent infringement by third parties, or if the licensed intellectual property rights are found to be invalid or unenforceable, our business, financial condition, and results of operations could be adversely affected. Defense of any lawsuit or failure to obtain any of these licenses on favorable terms could prevent us from commercializing products, which could have an adverse effect on our competitive position, business, financial condition, and results of operations.

If we are subject to a claim that we infringe, misappropriate or otherwise violate a third party's intellectual property rights, our business, financial condition, or results of operations could be adversely affected.

Claims by third parties that we or customers using our platform infringe, misappropriate or otherwise violate their proprietary technology or other intellectual property rights could harm our business. A number of companies in our industry hold a large number of patents and also protect their copyrights, trade secrets and other intellectual property rights, and there is considerable patent and other intellectual property development activity in our industry. We expect that software companies will increasingly be subject to claims of infringement, misappropriation and other violations of intellectual property rights as the number of products and competitors grows and the functionality of products in different industry segments overlaps. As we face increasing competition and become increasingly high profile, the possibility of receiving a larger number of intellectual property claims against us grows. In addition, various "non-practicing entities," and other intellectual property rights holders may attempt to assert intellectual property claims against us or seek to monetize the intellectual property rights they own to extract value through licensing or other settlements.

In addition, the patent portfolios of many of our competitors are larger than ours, and this disparity may increase the risk that our competitors may sue us for patent infringement and may limit our ability to counterclaim for patent infringement or settle through patent cross-licenses. Our use of third-party software and other intellectual property rights also may be subject to claims of infringement or misappropriation. For example, a claim may be made relating to technology that we acquire or license from third parties. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that such personnel have divulged proprietary or other confidential information to us. Further, we may be unaware of the intellectual property rights of others that may cover some or all of our technology, and our insurance may not cover intellectual property rights infringement claims that may be made.

Our agreements with our customers or third-party service providers also contain indemnification provisions related to claims that our platform infringes upon, misappropriates or otherwise violates the intellectual property rights of third parties. We have in the past, and may in the future, receive such claims. In the event that the resolution of such claims requires us to indemnify our customers or third-party service providers for significant amounts, our business, financial condition and results of operations could be adversely affected. Any claim of infringement, misappropriation or other violation, regardless of its merit or our defenses, could:

- require costly litigation to resolve or the payment of substantial damages, ongoing royalty payments, or other significant amounts to settle such disputes;
- require significant management time and attention;
- cause us to enter into unfavorable royalty or license agreements, which may not be available on commercially reasonable terms, if at all;
- require us to discontinue the sale of some or all of our platform, remove, or reduce features or functionality of our platform or comply with other unfavorable terms;
- require us to indemnify our customers or third-party service providers; or
- require us to expend additional development resources to redesign our platform.

Any of the foregoing could adversely affect our business, financial condition, and results of operations.

If we fail to comply with our obligations under license or technology agreements with third parties, we may be required to pay damages and we could lose license rights that are critical to our business.

We license from third parties certain intellectual property, technologies, data, content and software that are important to our business, and in the future we may enter into additional agreements. If we fail to comply with any of the obligations under our license agreements, we may be required to pay damages and the licensor may have the right to terminate the license. Termination by the licensor may cause us to lose valuable rights, and could prevent us from selling our products and services, or inhibit our ability to commercialize future products and services. Our business may suffer if any current or future licenses terminate, if the licensors fail to abide by the terms of the license, if the licensors fail to enforce licensed patents against infringing third parties, if the licensed intellectual property rights are found to be invalid or unenforceable, or if we are unable to enter into necessary licenses on acceptable terms. Moreover, our licensors may not own or control intellectual property that has been licensed to us and, as a result, we may be subject to claims, regardless of their merit, that we are infringing, misappropriating or otherwise violating a third party's rights. In addition, the agreements under which we license intellectual property or technology from third parties are generally complex, and certain provisions in such agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could narrow what we believe to be the scope of our rights to the relevant intellectual property or technology, or increase what we believe to be our financial or other obligations under the relevant agreement. Any of the foregoing could an adverse effect on our competitive position, business, financial condition, and results of operations.

We may be obligated to disclose our proprietary source code to certain of our customers, which may limit our ability to protect our intellectual property and proprietary rights and could reduce the renewals of our solutions.

Some of our customer agreements contain provisions permitting the customer to become a party to, or a beneficiary of, a source code escrow agreement under which we place the proprietary source code for certain of our products in escrow with a third party, and in certain circumstances, upon customer request, we also make available the source code of our proprietary software. We are currently party to a source code escrow agreement, pursuant to which an escrow agent may release our source code to customers identified as beneficiaries under such agreement (i) upon our written request or (ii) if we become the subject of a voluntary or involuntary petition in bankruptcy (other than a case filed under chapter 11 of the U.S. Bankruptcy Code), and such petition is not dismissed within 120 days of filing, or if we admit in writing of our inability to pay our debts as they become due. We have never released our source code from escrow. Agreements with certain customers may also require us to release our source code under certain other circumstances, such as material breach of the applicable agreement. Disclosing the content of our source code may limit the intellectual property protection we can obtain or maintain for our source code or our products containing that source code and may facilitate intellectual property infringement, misappropriation or other violation claims against us. Following any such release, we cannot be certain that customers will comply with the restrictions on their use of the source code and we may be unable to monitor and prevent unauthorized disclosure of such source code by customers. Any increase in the number of people familiar with our source code as a result of any such release also may increase the risk of a successful hacking attempt. Any of these circumstances could result in an adverse effect on our business, financial condition, and results of operations.

Risks Related to Legal and Regulatory Environment

Our business is subject to a wide range of laws and regulations, many of which are evolving, and failure to comply with such laws and regulations could harm our business, financial condition, and results of operations.

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, including agencies responsible for monitoring and enforcing data privacy, security and protection laws and regulations, intellectual property, employment and labor laws, workplace safety, consumer protection laws, anti- bribery laws, import and export controls, immigration laws, federal securities laws and tax laws and regulations. In certain foreign jurisdictions, these regulatory requirements may be more stringent than in the United States. These laws and regulations impose added costs on our business. Noncompliance with applicable regulations or requirements could subject us to:

- investigations, enforcement actions, orders and sanctions;
- mandatory changes to our products and services;
- disgorgement of profits, fines and damages;
- civil and criminal penalties or injunctions;
- claims for damages by our customers or partners;
- termination of contracts;
- loss of intellectual property rights; and
- temporary or permanent debarment from sales to heavily regulated organizations and governments.

If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, financial condition, and results of operations could be adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could materially harm our business, financial condition, and results of operations.

In addition, we must comply with laws and regulations relating to the formation, administration and performance of contracts with customers in heavily regulated industries and the public sector, including U.S. federal, state and local governmental organizations, which affect how we and our partners do business with such customers. Selling our product to customers in heavily regulated industries or to the U.S. government, whether directly or through partners, also subjects us to certain regulatory and contractual requirements. Failure to comply with these requirements by either us or our partners could subject us to investigations, fines and other penalties, which would adversely affect our business, financial condition, and results of operations. Violations of certain regulatory and contractual requirements could also result in us being suspended or debarred from future government contracting or other contracting opportunities. Any of these outcomes could adversely affect our business, financial condition, and results of operations.

We are subject to stringent laws, rules and regulations regarding privacy, data protection and information security. Any actual or perceived failure by us to comply with such laws, rules and regulations, the privacy or security provisions of our privacy policy, our contracts or other legal or regulatory requirements could result in proceedings, actions or penalties against us and materially adversely affect our business.

Our customers' collection, storage, use and other processing of data concerning, among others, their employees, contractors, partners and customers is essential to their use of our platform. We have implemented various features intended to enable our customers to better comply with applicable privacy, data protection and information security requirements in their collection, use and other processing of data within our online service, but these features do not ensure their compliance and may not be effective against all potential concerns relating to privacy, data protection or information security.

Many jurisdictions have enacted or are considering enacting or revising privacy, data protection or information security legislation, including laws, rules and regulations applying to the collection, use, storage, transfer, disclosure or other processing of personal data, including for purposes of marketing and other communications. The costs of compliance with, and other burdens imposed by, such laws, rules and regulations that are applicable to the operations of our business, or those of our customers, may limit the use and adoption of our service and reduce overall demand for it. These privacy, data protection and information security related laws, rules and regulations are evolving and may result in increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. In addition, we are subject to certain contractual obligations regarding the collection, use, storage, transfer, disclosure or other processing of personal data. Although we are working to comply with applicable federal, state, and foreign laws, rules and regulations, industry standards, contractual obligations and other legal obligations that apply to us, those laws, rules, regulations, standards and obligations are evolving and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another, other requirements or legal obligations, our practices or the features of our platform. We also expect that there will continue to be new proposed laws, regulations and industry standards concerning privacy, data protection and information security in the United States, the European Union and other jurisdictions, and we cannot yet determine the impact such future laws, regulations and standards may have on our business.

In June 2018, California enacted the CCPA, which took effect on January 1, 2020 and established a new privacy framework for covered businesses such as ours, which may require us to modify our data processing practices and policies and incur compliance-related costs and expenses. The CCPA broadly defines personal information and gave California residents expanded privacy rights and protections, such as affording them the right to access and request deletion of their information and to opt out of certain sharing and sales of personal information. The law also prohibits covered businesses from discriminating against California residents (for example, charging more for services) for exercising any of their CCPA rights. The CCPA provides for severe civil penalties and statutory damages for violations and a private right of action for certain data breaches that result in the loss of personal information. This private right of action is expected to increase the likelihood of, and risks associated with, data breach litigation. However, it remains unclear how various provisions of the CCPA will be interpreted and enforced. In November 2020, California voters passed the California Privacy Rights Act of 2020, or CPRA. Effective in most material respects starting on January 1, 2023, the CPRA imposes additional obligations on companies covered by the legislation and will significantly modify the CCPA, including by expanding the CCPA with additional data privacy compliance requirements that may impact our business. The CPRA also establishes a regulatory agency dedicated to enforcing the CCPA and the CPRA. The effects of the CPRA, the CCPA, other similar state or federal laws, and other future changes in laws or regulations relating to privacy, data protection and information security, particularly any new or modified laws or regulations that require enhanced protection of certain types of data or new obligations with regard to data retention, transfer or disclosure, are significant, may require us to modify our data processing practices and policies, and could greatly increase the cost of providing our offerings, require significant changes to our operations or even prevent us from providing certain offerings in jurisdictions in which we currently operate and in which we may operate in the future or incur potential liability in an effort to comply with such legislation.

Other state legislatures are currently contemplating, and may pass, their own comprehensive data privacy and security laws, with potentially greater penalties and more rigorous compliance requirements relevant to our business, and many state legislatures have already adopted legislation that regulates how businesses operate online, including measures relating to privacy, data security, data breaches and the protection of sensitive and personal information. For example, in March 2021, Virginia enacted the Virginia Consumer Data Protection Act, or CDPA, which becomes effective on January 1, 2023, in June 2021, Colorado enacted the Colorado Privacy Act, or CPA, which becomes effective on July 1, 2023, and in March 2022, Utah enacted the Utah Consumer Privacy Act, or UCPA, which becomes effective on December 31, 2023. The CDPA, CPA, and UCPA are comprehensive privacy statutes that share similarities with the CCPA, the CPRA, and legislation proposed in other states. Laws in all 50 states require businesses to provide notice under certain circumstances to customers whose personal information has been disclosed as a result of a data breach. New laws, amendments to or re-interpretations of existing laws and regulations, industry standards, contractual obligations and other obligations may require us to incur additional costs and restrict our business operations. Such laws and regulations may require companies to implement privacy and security policies, permit users to access, correct and delete personal data stored or maintained by such companies, inform individuals of security breaches that affect their personal data, and, in some cases, obtain individuals' consent to use personal data for certain purposes. If we, or the third parties on which we rely, fail to comply with federal, state or international laws or regulations relating to privacy, data protection or information security, our ability to successfully operate our business and pursue our business goals could be harmed. In addition to government activity, privacy advocacy groups and technology and other industries are considering various new, additional or different self-regulatory standards that may place additional burdens on us. Future laws, regulations, standards and other obligations, and changes in the interpretation of existing laws, regulations, standards and other obligations may require us to modify our data processing practices and policies, and could impair our or our customers' ability to collect, use or disclose information relating to consumers, which could decrease demand for our applications, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue.

Internationally, many jurisdictions have established their own legal frameworks governing privacy, data protection, and information security with which we may need to comply. For example, the European Union has adopted the GDPR, which went into effect in May 2018 and contains numerous requirements and changes from previously existing EU law, including more robust obligations on data processors and heavier documentation requirements for data protection compliance programs. The GDPR requires data controllers to implement more stringent operational requirements for processors and controllers of personal data, including, for example, transparent and expanded disclosure to data subjects about how their personal data is to be used, imposes limitations on retention of information, introduces mandatory data breach notification requirements, and sets higher standards for data controllers to demonstrate that they have obtained valid consent for certain data processing activities. The GDPR also imposes strict rules on the transfer of personal data to countries outside the European Economic Area, or the EEA, including the United States. In 2016, the EU and United States agreed to a transfer framework for data transferred from the EEA to the United States, called the EU-U.S. Privacy Shield, but the EU-U.S. Privacy Shield was invalidated in July 2020 by the Court of Justice of the EU, or CJEU. On September 8, 2020, the Swiss Federal Data Protection and Information Commissioner invalidated the Swiss-U.S. Privacy Shield on similar grounds. The standard contractual clauses issued by the European Commission for the transfer of personal data, or the SCCs, a potential alternative to the EU-U.S. Privacy Shield, also have been drawn into question for use under certain circumstances, and regulators have issued additional guidance regarding considerations and requirements that we and other companies must consider and undertake when using the SCCs. In its July 2020 decision invalidating the EU-U.S. Privacy Shield, the CJEU imposed additional obligations on companies when relying on the SCCs to transfer personal data. The CJEU decision may result in European data protection regulators applying differing standards for, and requiring ad hoc verification of, transfers of personal data from the EEA and Switzerland to the U.S. On June 4, 2021, the European Commission published new SCCs that are required to be implemented, and it remains to be seen whether additional means for lawful data transfers will become available. The revised SCCs, recommendations and opinions of regulators, and other developments relating to cross-border data transfer, may require us to implement additional contractual and technical safeguards for any personal data transferred out of the EEA and Switzerland, which may increase compliance and related costs, lead to increased regulatory scrutiny or liability, necessitate additional contractual negotiations, and adversely impact our business, financial condition, and results of operations. Fines for noncompliance with the GDPR are significant and can be up to the greater of €20 million or 4% of annual global turnover. The GDPR also provides that EU member states may introduce further conditions, including limitations, and make their own laws and regulations further limiting the processing of 'special categories of personal data,' including personal data related to health, biometric data used for unique identification purposes and genetic information, which could limit our ability to collect, use and share EU data, and could cause our compliance costs to increase, ultimately having an adverse impact on our business, financial condition, and results of operations.

Further, the United Kingdom's exit from the European Union, often referred to as Brexit, and ongoing developments in the United Kingdom have created uncertainty with regard to data protection regulation in the United Kingdom. Following the expiry of transitional arrangements agreed to between the United Kingdom and European Union, data processing in the United Kingdom is governed by a United Kingdom version of the GDPR (combining the GDPR and the United Kingdom's Data Protection Act 2018), which authorizes significant fines, up to the greater of £17.5 million or 4% of global turnover, and exposes us to two parallel regimes and other potentially divergent enforcement actions for certain violations. On June 28, 2021, the European Commission announced a decision that the United Kingdom is an "adequate country" to which personal data could be exported from the EEA, but this decision must be renewed and may face challenges in the future, creating uncertainty regarding transfers of personal data to the United Kingdom from the EEA. Furthermore, there exists the potential over time for divergence in application, interpretation and enforcement of the data protection law as between the United Kingdom and EEA. On February 2, 2022, the United Kingdom's Information Commissioner's Office issued new standard contractual clauses, or the UK SCCs, to support personal data transfers out of the United Kingdom. The UK SCCs became effective March 21, 2022, and like the EU SCCs, also are required to be implemented over time. We may, in addition to other impacts, experience additional costs associated with increased compliance burdens and be required to engage in new contract negotiations with third parties that aid in processing personal data on our behalf or localize certain personal data of United Kingdom data subjects. Other countries have also passed or are considering passing laws requiring local data residency or restricting the international transfer of data. Additionally, many jurisdictions outside the United States, EEA, and United Kingdom in which we have operations or for which such jurisdictions' laws or regulations may apply to us or our operations, including Canada, Australia, New Zealand, and Singapore, maintain laws and regulations relating to privacy, data protection, and information security that provide for extensive obligations in connection with the use, collection, protection, and processing of personal data. Many of these legal regimes provide for substantial fines, penalties, or other consequences for noncompliance. We may be required to implement new measures or policies, or change our existing policies and measures or the features of our platform, in an effort to comply with U.S. and international laws, rules, and regulations relating to privacy, data protection and information security, which may require us to expend substantial financial and other resources and which may otherwise be difficult to undertake.

Any failure or perceived failure by us to comply with federal, state or foreign laws, rules or regulations, industry standards, contractual or other legal obligations relating to privacy, data protection or information security, or any actual, perceived or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release or transfer of personal data or other data, may result in enforcement actions and prosecutions, private litigation, significant fines, penalties and censure, claims for damages by customers and other affected individuals, regulatory inquiries and investigations or adverse publicity and could cause our customers to lose trust in us, any of which could have an adverse effect on our reputation and business. Since many of our offerings involve the processing of personal data from our customers and their employees, contractors, customers, partners and others, any inability to adequately address privacy, data protection or information security concerns, even if unfounded, or comply with applicable laws, rules, regulations, policies, industry standards, contractual or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business, financial condition, and results of operations.

Around the world, there are numerous lawsuits in process against various technology companies that process personal data. If those lawsuits are successful, it could increase the likelihood that our company may be exposed to liability for our own policies and practices concerning the processing of personal data and could hurt our business. Furthermore, the costs of compliance with, and other burdens imposed by laws, regulations and policies concerning privacy, data protection and information security that are applicable to the businesses of our customers may limit the use and adoption of our platform and reduce overall demand for it. Concerns relating to privacy, data protection or information security whether or not valid, may inhibit market adoption of our platform. Additionally, concerns about privacy, data protection or information security may result in the adoption of new legislation that restricts the implementation of technologies like ours or requires us to make modifications to our platform, which could significantly limit the adoption and deployment of our technologies or result in significant expense to modify our platform.

We publicly post our privacy policies and practices concerning our collection, use, disclosure and other processing of the personal data provided to us by our website visitors and by our customers. Although we endeavor to comply with our public statements and documentation, we may at times fail to do so or be alleged to have failed to do so. Our publication of our privacy policies and other statements we publish that provide promises and assurances about privacy, data protection and information security can subject us to potential regulatory action if they are found to be deceptive, unfair or misrepresentative of our actual practices.

Evolving and changing definitions of what constitutes “personal information” and “personal data” within the EEA, the United States and elsewhere, especially relating to classification of IP addresses, machine or device identification numbers, location data and other information, may limit or inhibit our ability to operate or expand our business, including limiting technology alliance partners that may involve the sharing of data. In addition, rapidly-evolving privacy laws and frameworks distinguish between a data processor and data controller (or under the CCPA, whether a business is a ‘service provider’), and different risks and requirements may apply to us, depending on the nature of our data processing activities. If our business model expands and changes over time, different sets of risks and requirements may apply to us, requiring us to re-orient the business accordingly.

If our platform is perceived to cause, or is otherwise unfavorably associated with, violations of privacy, data protection or information security requirements, it may subject us or our customers to public criticism and potential legal liability. Existing and potential laws, rules and regulations concerning privacy, data protection and information security and increasing sensitivity of consumers to unauthorized processing of personal data may create negative public reactions to technologies, products and services such as ours. Public concerns regarding personal data processing, privacy, data protection and information security may cause some of our customers’ end users to be less likely to visit their websites or otherwise interact with them. If enough end users choose not to visit our customers’ websites or otherwise interact with them, our customers could stop using our platform. This, in turn, may reduce the value of our service, and slow or eliminate the growth of our business, or cause our business to contract.

We may be the subject of legal proceedings which could have an adverse effect on our business, financial condition, and results of operations.

In the ordinary course of business, we may be involved in various litigation matters, including but not limited to commercial disputes, employee claims and class actions, and from time to time may be involved in governmental or regulatory investigations or similar matters arising out of our current or future business. Any claims asserted against us, regardless of merit or eventual outcome, could harm our reputation and have an adverse impact on our relationship with our customers, partners and other third parties and could lead to additional related claims. Certain claims may seek injunctive relief, which could disrupt the ordinary conduct of our business and operations or increase our cost of doing business. Our insurance or indemnities may not cover all claims that may be asserted against us, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation and cause us to expend resources in our defense. Furthermore, there is no guarantee that we will be successful in defending ourselves in future litigation or similar matters under various laws. If judgments or settlements in any future litigation or investigation significantly exceed our insurance coverage, our business, financial condition, and results of operations could be adversely affected.

If we fail to meet the service level commitments under our customer contracts, we could be obligated to provide credits for future service, or face contract termination with refunds of prepaid amounts related to unused subscriptions, which could adversely affect our business, financial condition, and results of operations.

Our customer agreements contain service level commitments, under which we guarantee specified availability of our platform, and time-bound resolutions to support inquiries. Any failure of or disruption to our infrastructure could make our platform unavailable to our customers. If we are unable to meet the stated service level commitments to our customers or suffer extended periods of unavailability of our platform, we may be contractually obligated to provide affected customers with service credits for future subscriptions, or customers could elect to terminate and receive refunds for prepaid amounts related to unused subscriptions. Any of the foregoing could adversely affect our business, financial condition, and results of operations.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

Our agreements with customers, partners and other third parties may include indemnification or other provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of intellectual property infringement, misappropriation or other violation, damages caused by us to property or persons, or other liabilities relating to or arising from the use of our platform or other acts or omissions. The term of these contractual provisions sometimes survives termination or expiration of the applicable agreement. As we continue to grow, the possibility of infringement claims and other intellectual property rights claims against us may increase. For any intellectual property rights indemnification claim against us or our customers, we will incur significant legal expenses and may have to pay damages, settlement fees, license fees or stop using technology found to be in violation of the third party's rights. Large indemnity payments could harm our business, financial condition, and results of operations. We may also have to seek a license for the infringing or allegedly infringing technology. Such license may not be available on reasonable terms, if at all, and may significantly increase our operating expenses or may require us to restrict our business activities and limit our ability to deliver certain offerings. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense or cause us to alter our platform, which could adversely affect our business, financial condition, and results of operations.

From time to time, customers require us to indemnify or otherwise be liable to them for breach of confidentiality, violation of applicable law or failure to implement adequate security measures with respect to their data stored, transmitted or accessed using our platform. Although we normally contractually limit our liability with respect to such obligations, the existence of such a dispute may have adverse effects on our customer relationship and reputation and we may still incur substantial liability related to them.

Any assertions by a third party, whether or not successful, with respect to such indemnification obligations could subject us to costly and time-consuming litigation, expensive remediation and licenses, divert management attention and financial resources, harm our relationship with that customer and other current and prospective customers, reduce demand for our platform, and adversely affect our brand, business, financial condition, and results of operations.

We may be subject to liability claims if we breach our contracts and our insurance may be inadequate to cover our losses.

We are subject to numerous obligations in our contracts with our customers and partners. Despite the procedures, systems and internal controls we have implemented to comply with our contracts, we may breach these commitments, whether through a weakness in these procedures, systems and internal controls, negligence or the willful act of an employee or contractor. Our insurance policies, including our errors and omissions insurance, may be inadequate to compensate us for the potentially significant losses that may result from claims arising from breaches of our contracts, disruptions in our service, including those caused by cybersecurity incidents, failures or disruptions to our infrastructure, catastrophic events and disasters or otherwise. In addition, such insurance may not be available to us in the future on economically reasonable terms, or at all. Further, our insurance may not cover all claims made against us and defending a suit, regardless of its merit, could be costly and divert management's attention.

A portion of our revenue is generated from sales to government entities, which subject us to a number of challenges and risks.

A portion of our revenue is generated from sales to governmental entities, and we have made, and may continue to make, investments to support future sales opportunities in the government sector. We estimate that we generated approximately 16% and 26% of our revenue from sales to government entities for the three months ended September 30, 2022 and 2021, respectively. We generated approximately 17% and 20% of our revenue from government entities for the nine months ended September 30, 2022 and 2021, respectively. Government demand for our platform and offerings could be impacted by budgetary cycles, and there may be governmental certification requirements for our platform. Further, we may be subject to audits and investigations regarding our governmental contracts, and any violations could result in penalties and sanctions, including termination of the contract, refunding or forfeiting payments, fines and suspension or disbarment from future government business. Selling to these entities can be highly competitive, expensive and time consuming, often requiring significant upfront time and expense without any assurance that we will successfully complete a sale. Government entities often require contract terms that differ from our standard arrangements and impose compliance requirements that are complicated, require preferential pricing, termination rights tied to funding availability, or are otherwise time consuming and expensive to satisfy. Government entities may also have statutory, contractual, or other legal rights to terminate contracts with our partners for convenience, for lack of funding, or due to a default, and any such termination may adversely impact our results of operations. If we undertake to meet special standards or requirements and do not meet them, we could be subject to increased liability from our customers or regulators. Even if we do meet such special standards, the additional costs associated with providing our platform and offerings to government entities could harm our margins. Moreover, changes in the underlying regulatory conditions that affect these types of customers could harm our ability to efficiently provide our platform to them and to grow or maintain our customer base. If we are unable to manage the risks related to contracting with government entities, our business, financial condition, and results of operations could be adversely affected.

Political developments in the United Kingdom, including the exit of the United Kingdom from the European Union, could adversely affect our business, financial condition, and results of operations.

We contract with our international customers via our subsidiary in the United Kingdom, ForgeRock Limited, and we derive a meaningful portion of our revenue from the United Kingdom, which is typically in British Pounds or Euros. Recent developments in the relationship between the United Kingdom and the European Union may have an adverse impact on our business and financial position, and results of operations and the currencies in which we transact business.

Following a referendum in June 2016, the United Kingdom withdrew from the European Union on February 1, 2020 (referred to as Brexit), and entered into a transition period to, among other things, negotiate an agreement with the European Union governing the future relationship between the European Union and the United Kingdom. Brexit created significant political and economic uncertainty in 2020 about the future relationship between the United Kingdom and the European Union, which in turn caused and continues to cause significant volatility in global financial markets and the value of the British Pound or other currencies, including the Euro.

While the E.U.-UK Trade and Cooperation Agreement was agreed on December 24, 2020 and ratified by the UK Parliament on December 30, 2020 shortly before the transition period ended on December 31, 2020, the ongoing impact of both Brexit and the E.U.-UK Trade and Cooperation Agreement, is unclear how these will impact economic conditions in the United Kingdom as well as global financial markets.

While the European Union Withdrawal Act retains relevant E.U. law as domestic UK law and the E.U.-UK Trade and Cooperation Agreement extended the transition period specifically for data transfers (the adequacy bridge), Brexit has nonetheless created uncertainty with regard to the regulation of data protection, immigration and taxation, among other issues, in the United Kingdom. For example, it is unclear how Brexit will affect how data transfers to and from the United Kingdom will be regulated in the future.

The uncertainty that Brexit has caused may result in new regulatory challenges or increased costs to our United Kingdom and global operations, all of which could adversely affect our business, financial condition, and results of operations.

We are subject to anti-corruption, anti-bribery, anti-money laundering and similar laws, and non-compliance with such laws can subject us to criminal penalties or significant fines and harm our business and reputation.

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, U.S. Travel Act, the U.K. Bribery Act 2010 and possibly other anti-corruption, anti-bribery and anti-money laundering laws in countries in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly and prohibit companies and their employees, agents, representatives, business partners, and third-party intermediaries from promising, authorizing, making or offering, directly or indirectly, improper payments or other benefits to recipients in the public or private sector. As we increase our international sales and business, our risks under these laws may increase.

In addition, we use third parties to sell our platform or offerings and conduct business on our behalf abroad. We, our employees, agents, representatives, business partners and third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and we may be held liable for the corrupt or other illegal activities of these employees, agents, representatives, business partners and third-party intermediaries, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities. These laws also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. We have policies to address compliance with such laws, but cannot ensure that all our employees, agents, representatives, business partners and third-party intermediaries, will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

Any allegations or violation of the FCPA, other applicable anti-bribery, anti-corruption laws, or anti-money laundering laws could subject us to investigations, whistleblower complaints, sanctions, settlements, prosecution, and other enforcement actions, disgorgement of profits, significant fines, damages, injunctions, adverse media coverage, loss of export privileges, severe criminal or civil sanctions, suspension or debarment from government contracts and other consequences, any of which could have a material adverse effect on our reputation, business, financial condition, prospects and results of operations. Responding to any investigation or action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

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

In many cases, our business activities are subject to U.S. and international export control laws and regulations including the Export Administration Regulations, or EAR, and trade and economic sanctions maintained by the Office of Foreign Assets Control, or OFAC. As such, an export license may be required to export or reexport our software and services to certain countries and end-users, including to certain U.S. embargoed or sanctioned countries, governments, and persons and for certain end-uses. If we were to fail to comply with such export control laws and regulations, trade and economic sanctions, or other similar laws, we could be subject to both civil and criminal penalties, including substantial fines, possible incarceration for employees and managers for willful violations, and the possible loss of our export or import privileges. Obtaining the necessary export license for a particular sale or offering may not be possible and may be time-consuming and may result in the delay or loss of sales opportunities.

In addition, various countries regulate the import of certain software and technology using encryption, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our platform and offerings or could limit our end-customers' ability to implement our platform in those countries. Changes in our platform or changes in export and import regulations in such countries may create delays in the introduction of our platform and offerings into international markets, prevent our customers with international operations from deploying our platform globally, or in some cases, prevent or delay the export or import of our platform and offerings to certain countries, governments, or persons altogether. The following developments could result in decreased use of our platform and offerings by, or in our decreased ability to export or sell our platform and offerings to, existing or potential end-customers with international operations: any change in export or import laws or regulations, economic sanctions or related legislation; shift in the enforcement or scope of existing export, import or sanctions laws or regulations; or change in the countries, governments, persons, or technologies targeted by such export, import or sanctions laws or regulations. Any decreased use of our platform or offerings or limitation on our ability to export to or sell our platform or offerings in international markets could adversely affect our business, financial condition, and results of operations.

Our international operations may give rise to potentially adverse tax consequences.

Our income tax obligations are based in part on our corporate operating structure and intercompany arrangements, including the manner in which we develop, value, manage and use our intellectual property and the valuation of our intercompany transactions. Our existing corporate structure and intercompany arrangements have been implemented in a manner we believe is in compliance with current prevailing tax laws. The tax laws applicable to our business, including the laws of the United States and other jurisdictions, are subject to interpretation and certain jurisdictions are aggressively interpreting their laws in new ways in an effort to raise additional tax revenue. New income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time. Those enactments could harm our business, financial condition, and results of operations. In addition, taxing authorities in these jurisdictions could impose additional tax, interest and penalties on us, claim that various withholding requirements apply to us or our subsidiaries or assert that benefits of tax treaties are not available to us or our subsidiaries. These events could require us or our customers to pay additional tax amounts on a prospective or retroactive basis, as well as require us or our customers to pay fines or penalties and interest for past amounts deemed to be due. If we raise our prices to offset the costs of these changes, existing and potential future customers may elect not to purchase our products in the future.

In addition, our intercompany relationships are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The relevant taxing authorities may disagree with our current and historic determinations as to the value of assets sold or acquired or income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest, and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows, and lower overall profitability of our operations. In addition, changes to our corporate structure and intercompany agreements could impact our worldwide effective tax rate and adversely affect our financial condition and results of operations.

There is also a high level of uncertainty in today's tax environment stemming from both global initiatives put forth by the Organization for Economic Co-operation and Development, or OECD, and unilateral measures being implemented by various countries due to a lack of consensus on these global initiatives. As an example, the OECD has put forth two proposals—Pillar One and Pillar Two—that revise the allocation of revenues to market jurisdiction based on customer jurisdiction rather than physical presence of the provider and ensure a minimal level of taxation, respectively. Further, certain countries have implemented or are considering implementing measures such as a digital services tax, or a minimum tax on gross income. Recently, the current administration has proposed changes to the U.S. Internal Revenue Code that, if enacted, could materially impact our U.S. tax liability in future years. These measures and corresponding tariffs in response to such measures create additional tax liabilities and uncertainty. As a result, we may have to pay higher taxes in countries where such rules are applicable.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

Under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an "ownership change," generally defined as a greater than 50% change (by value) in its equity ownership over a three year period, the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits and interest deduction carryover, to offset its post-change income may be limited. Any ownership change in the future could result in increased future tax liability. In addition, we may experience ownership changes in the future as a result of subsequent shifts in our stock ownership. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset U.S. federal taxable income may be subject to limitations, which could potentially result in increased future tax liability to us. The impact of any limitations that may be imposed due to such ownership changes has not been determined.

In addition, under the Tax Cuts and Jobs Act, or Tax Act, as modified by the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, federal net operating losses incurred during our taxable years beginning after December 31, 2017 can be carried forward indefinitely, however, the deductibility of our federal net operating losses generated in such years will be limited to 80% of taxable income in the year utilized. Furthermore, our ability to use our net operating loss carryforwards is conditioned upon generating future U.S. federal taxable income. Since we do not know whether or when we will generate the U.S. federal taxable income necessary to use our remaining net operating loss carryforwards, certain of our net operating loss carryforwards generated could expire before use.

Any successful action by state, foreign or other authorities to collect additional or past indirect taxes, including sales tax and others could adversely affect our business, financial condition, and results of operations.

States, some local taxing jurisdictions, and foreign jurisdictions have differing rules and regulations governing indirect taxes such as sales and use taxes, value added taxes, or VAT, and goods and services taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of indirect taxes to our platform in various jurisdictions is unclear. We file indirect tax returns and collect indirect taxes in certain states within the United States and certain foreign jurisdictions as required by law, and we do not file and collect indirect or other similar taxes in certain other states, certain other foreign jurisdictions and on certain of the offerings that we provide on the basis that such taxes are not applicable. It is possible that we could face indirect tax audits and that one or more states, local jurisdictions or foreign authorities could seek to impose additional indirect or other tax collection and record-keeping obligations on us or may determine that such taxes should have, but have not been, paid by us. We could also be subject to audits in states, local and foreign jurisdictions for which we have not accrued tax liabilities. A successful assertion that we should be collecting additional indirect or other taxes on our service in jurisdictions where we have not historically done so and do not accrue for indirect taxes could result in substantial tax liabilities for past sales, discourage customers from purchasing our platform and offerings or otherwise adversely affect our business, financial condition, and results of operations.

We may face exposure to foreign currency exchange rate fluctuations.

Today, approximately half of our customer contracts are denominated in U.S. dollars. Over time, however, an increasing portion of our international customer contracts may be denominated in local currencies. In addition, the majority of our international costs are denominated in local currencies. As a result, fluctuations in the value of the U.S. dollar and foreign currencies may affect our results of operations when translated into U.S. dollars. We do not currently engage in currency hedging activities to limit the risk of exchange rate fluctuations. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

Operating as a public company has and will require us to incur substantial costs and will require substantial management attention.

As a public company, we incur substantial legal, accounting and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Exchange Act, the applicable requirements of the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the rules and regulations of the SEC and the listing standards of the NYSE. The Exchange Act requires, among other things, we file annual, quarterly and current reports with respect to our business, financial condition, and results of operations. Compliance with these rules and regulations will increase our legal and financial compliance costs, and increase demand on our systems, particularly after we are no longer an “emerging growth company.” In addition, as a public company, we may be subject to stockholder activism, which can lead to additional substantial costs, distract management and impact the manner in which we operate our business in ways we cannot currently anticipate. As a result of disclosure of information in filings required of a public company, our business, financial condition, and results of operations will become more visible, which may result in threatened or actual litigation, including by competitors.

Certain members of our management team have limited experience managing a publicly traded company, and certain members joined us more recently. As such, our management team may not successfully or efficiently manage our growth as a public company subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents will require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial condition, and results of operations.

Risks Related to Ownership of Our Class A Common Stock

We are an "emerging growth company" and the reduced disclosure requirements applicable to emerging growth companies may make our Class A common stock less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. As an "emerging growth company," we are also allowed to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. As a result, our financial statements may not be comparable to those of companies that comply with new or revised accounting pronouncements as of public company effective dates. Any difficulties in implementing these pronouncements could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us. We may take advantage of these exemptions for so long as we are an "emerging growth company," which could be for as long as five full reporting years following the completion of our initial public offering. We cannot predict if investors will find our Class A common stock less attractive because we will rely on these exemptions. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock and the market price of our Class A common stock may be more volatile. We expect to lose our "emerging growth company" status as of December 31, 2022.

The dual-class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock (or options or other securities convertible into or exercisable for our capital stock) prior to the completion of our initial public offering, which will limit your ability to influence the outcome of important transactions, including a change in control.

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of September 30, 2022, our directors, executive officers, and holders of more than 5% of our common stock, and their respective affiliates, held in the aggregate over 80% of the combined voting power of our Class A common stock and Class B common stock. Because of the 10-to-one voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock and will therefore, if acting together, be able to control all matters submitted to our stockholders for approval until the earlier of (i) the 7th anniversary of the filing and effectiveness of our amended and restated certificate of incorporation, (ii) when the outstanding shares of our Class B common stock represent less than 5% of the combined voting power of our outstanding Class A common stock and Class B common stock, and (iii) the affirmative vote of the holders of 66-2/3% of the voting power of our outstanding Class B common stock. This concentrated control will limit or preclude your ability to influence corporate matters, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets or other major corporate transactions requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interest as one of our stockholders.

Future transfers by holders of shares of our Class B common stock generally result in those shares converting to Class A common stock, subject to limited exceptions, including but not limited to, transfers effected for estate planning purposes, to the extent the transferor retains voting power over the shares, and transfers among affiliates, to the extent the transferee continues to remain an affiliate. Shares of Class B common stock held by natural persons automatically convert into shares of Class A common stock upon the death or disability of the holder. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those individual holders of Class B common stock who retain their shares in the long term.

The market price of our Class A common stock may be volatile, and you could lose all or part of your investment.

The market price of our Class A common stock may be volatile and could be subject to fluctuations in response to various factors, some of which are beyond our control. These fluctuations could cause you to lose all or part of your investment in our Class A common stock. Factors that could cause fluctuations in the market price of our Class A common stock include the following:

- the Merger, the pendency of the Merger, or the failure to complete the Merger;
- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our common stock by us or our stockholders, as well as the anticipation of, expiration of, or releases, from market standoff agreements or lock-up agreements;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new offerings or platform features;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- short selling of our Class A common stock or related derivative securities;
- actual or anticipated changes in our results of operations or fluctuations in our results of operations; actual or perceived security breaches or incidents;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- announced or completed acquisitions of businesses, offerings or technologies by us or our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- litigation involving us, our industry, or both, or investigations by regulators into our operations or those of our competitors;
- new laws, regulations, rules or industry standards or new interpretations of existing laws, regulations, rules or industry standards applicable to our business;
- increased inflation throughout the economy, which is often accompanied by higher interest rates;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the market price of our Class A common stock could decline for reasons unrelated to our business, financial condition or results of operations. The market price of our Class A common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, would result in substantial costs and a diversion of our management's attention and resources.

Recently, the stock markets in general, and the markets for technology stocks in particular, have experienced extreme volatility, including as a result of the COVID-19 pandemic, interest rate increases and broader global macroeconomic uncertainties. Furthermore, the market price of our Class A common stock may be adversely affected by third parties trying to drive down the price of our Class A common stock. Short sellers and others, some of whom post anonymously on social media, can negatively affect the market price of our Class A common stock and may be positioned to profit if the market price of our Class A common stock declines. These broad market and industry factors may seriously harm the market price of our Class A common stock, regardless of our operating performance.

The issuance of additional stock in connection with financings, acquisitions, investments, our equity compensation plans or otherwise will dilute all other stockholders.

Our amended and restated certificate of incorporation authorizes us to issue up to 1,000,000,000 shares of Class A common stock, up to 500,000,000 shares of Class B common stock and up to 100,000,000 shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue shares of Class A common stock or securities convertible into shares of our Class A common stock from time to time in connection with a financing, acquisition, investment, our equity compensation plans or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the market price of our Class A common stock to decline.

Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the market price of our Class A common stock.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, even if a change in control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult, including the following:

- our board of directors is classified into three classes of directors with staggered three-year terms, and directors are only able to be removed from office for cause;
- certain amendments to our amended and restated certificate of incorporation require the approval of at least 66 2/3% of the voting power of the outstanding shares of our stock entitled to vote generally in the election of directors, voting together as a single class;
- our dual class common stock structure provides holders of Class B common stock with the ability to significantly influence the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding capital stock;
- our stockholders are only be able to take action at a meeting of stockholders and are not able to take action by written consent for any matter;
- our amended and restated certificate of incorporation does not provide for cumulative voting;
- vacancies on our board of directors are able to be filled only by our board of directors and not by stockholders;
- a special meeting of our stockholders may only be called by the chairperson of our board of directors, our Chief Executive Officer (or our President in the absence of a Chief Executive Officer) or a majority of the “whole board” of our board of directors, where the “whole board” is the total number of authorized directorships whether or not there exist any vacancies or other unfilled seats in previously authorized directorships;
- certain litigation against us can only be brought in Delaware;
- our amended and restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued without further action by our stockholders; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

These provisions, alone or together, could discourage, delay or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions they desire, any of which, under certain circumstances, could limit the opportunity for our stockholders to receive a premium for their shares of our Class A common stock and could also affect the price that some investors are willing to pay for our Class A common stock.

We cannot predict the impact our dual class structure may have on the market price of our Class A common stock.

We cannot predict whether our dual class structure will result in a lower or more volatile market price of our Class A common stock or in adverse publicity or other adverse consequences. For example, certain index providers have restrictions on including companies with multiple-class share structures in certain of their indexes. In July 2017, FTSE Russell and Standard & Poor's announced that they would cease to allow most newly public companies utilizing dual or multi-class capital structures to be included in their indices. Affected indices include the Russell 2000 and the S&P 500, S&P MidCap 400, and S&P SmallCap 600, which together make up the S&P Composite 1500. Under these policies, our dual class capital structure would make us ineligible for inclusion in certain indices, and as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track those indices will not be investing in our stock. Because of our dual class structure, we will likely be excluded from certain of these indexes and we cannot assure you that other stock indexes will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indexes, exclusion from stock indexes would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors. As a result, the market price of our Class A common stock could be adversely affected.

Our amended and restated bylaws designate a state or federal court located within the State of Delaware as the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated bylaws, which provide that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (iii) any action arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws or (iv) any other action asserting a claim that is governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware), in all cases subject to the court having jurisdiction over indispensable parties named as defendants.

Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated bylaws further provide that the federal district courts of the United States will be the exclusive forum for resolving any complaints asserting a cause of action arising under the Securities Act of 1933, as amended, or the Securities Act. We note, however, that investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder, and that there is uncertainty as to whether a court would enforce this exclusive forum provision. If a court were to find either exclusive-forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our business, financial condition, and results of operations.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about us, our business or our market, or if they change their recommendations regarding our Class A common stock adversely, the market price and trading volume of our Class A common stock could decline.

The trading market for our Class A common stock depends, in part, on the research and reports that securities or industry analysts publish about us, our business, our market or our competitors. The analysts' estimates are based upon their own opinions and are often different from our estimates or expectations. If any of the analysts who cover us change their recommendation regarding our Class A common stock adversely, provide more favorable relative recommendations about our competitors or publish inaccurate or unfavorable research about our business, the market price of our Class A common stock would likely decline. If few securities analysts commence coverage of us, or if one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets and demand for our securities could decrease, which could cause the market price and trading volume of our Class A common stock to decline.

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

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. Additionally, our ability to pay cash dividends on our common stock is limited by restrictions under the terms of our Amended and Restated Loan Agreement. As a result, stockholders must rely on sales of their common stock after price appreciation, if any, as the only way to realize any future gains on their investment in our Class A common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds from Initial Public Offering.

Unregistered Sales of Equity Securities

None.

Use of Proceeds from Initial Public Offering

On September 20, 2021, we closed our IPO in which we sold 12,650,000 shares of Class A common stock at a public offering price of $25.00 per share, including 1,650,000 shares pursuant to the exercise in full of the underwriters' option to purchase additional shares. We received net proceeds of $289.7 million, after deducting underwriting discounts and commissions of $21.3 million and offering expenses paid by us of approximately $6.0 million, net of reimbursements. The offer and sale of all of the shares in the IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-259016), which was declared effective by the SEC on September 15, 2021. The representatives of the several underwriters of the IPO were Morgan Stanley & Co. LLC and J.P. Morgan Securities LLC. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning 10% or more of any class of our equity securities or to any other affiliates, other than payments in the ordinary course of business to officers for salaries and to non-employee directors pursuant to our director compensation policy.

There has been no material change in the planned use of proceeds from our IPO as described in our final prospectus filed with the SEC on September 17, 2021 pursuant to Rule 424(b)(4).

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following documents are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated below.

Exhibit Number	Description	Form	File Number	Exhibit	Filing Date
2.1+	Agreement and Plan of Merger, dated October 10, 2022, among Project Fortress Parent, LLC, Project Fortress Merger Sub, Inc. and ForgeRock, Inc.	8-K	001-40787	2.1	October 11, 2022
3.1	Amended and Restated Certificate of Incorporation of the registrant.	10-Q	001-40787	3.1	November 12, 2021
3.2	Amended and Restated Bylaws of the registrant.	10-Q	001-40787	3.2	November 12, 2021
4.2	Amended and Restated Investors' Rights Agreement, among the registrant and certain holders of its capital stock, dated as of April 6, 2020, as amended on April 21, 2021.	S-1	333-259016	4.2	August 23, 2021
10.1+	Form of Voting Agreement, dated as of October 10, 2022, by and among Project Fortress Parent, LLC, ForgeRock, Inc. and certain stockholders of ForgeRock, Inc.	8-K	001-40787	10.1	October 11, 2022
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1†	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS*	Inline XBRL Instance Document				
101.SCH*	Inline XBRL Taxonomy Extension Schema Document				
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document				
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document				
104*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).				

+ Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. ForgeRock will furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request. ForgeRock may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, for any schedules or exhibits so furnished.

* Filed herewith.

† The certifications attached as Exhibit 32.1 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of ForgeRock, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1934, the Registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

FORGEROCK, INC.

Date: November 10, 2022	By: /s/ Francis Rosch Francis Rosch President and Chief Executive Officer (Principal Executive Officer)
Date: November 10, 2022	By: /s/ John Fernandez John Fernandez Chief Financial Officer and Executive Vice President of Global Operations (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
331EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Francis Rosch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ForgeRock, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2022

FORGEROCK, INC.

By:	/s/ Francis Rosch
Name:	Francis Rosch
Title:	Chief Executive Officer and Director
	(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John Fernandez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of ForgeRock, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 10, 2022

FORGEROCK, INC.

By:	/s/ John Fernandez
Name:	John Fernandez
Title:	Chief Financial Officer and Executive Vice President of Global Operations (Principal Financial Officer)

Exhibit 32.1

CERTIFICATIONS OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Francis Rosch, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of ForgeRock, Inc. for the quarter ended September 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ForgeRock, Inc.

Date: November 10, 2022	By:	/s/ Francis Rosch
	Name:	Francis Rosch
	Title:	Chief Executive Officer and Director
		(Principal Executive Officer)

I, John Fernandez, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of ForgeRock, Inc. for the quarter ended September 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of ForgeRock, Inc.

Date: November 10, 2022	By:	/s/ John Fernandez
	Name:	John Fernandez
	Title:	Chief Financial Officer and Executive Vice President of Global Operations
		(Principal Financial Officer)