NEW RELIC, INC.
Form 10-Q
February 07, 2018

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2017
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: 001-36766

New Relic, Inc.
(Exact name of registrant as specified in its charter)

Delaware	26-2017431
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

188 Spear Street, Suite 1200
San Francisco, California 94105
(Address of principal executive offices, including zip code)
(650) 777-7600
(Registrant's telephone number, including area code)

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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	(Do not check if a small reporting company)	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 ý

As of January 26, 2018, there were 55,441,340 shares of the registrant's common stock, par value $0.001 per share, outstanding.

NEW RELIC, INC.
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Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to “New Relic,” “we,” “Company,” “us,” and “our” refer to New Relic, Inc. and its wholly owned subsidiaries. “New Relic,” the New Relic logo, and other trademarks or service marks of New Relic that may appear in this Quarterly Report on Form 10-Q are the property of the Company. This Quarterly Report on Form 10-Q contains additional trade names, trademarks, and service marks of other companies. The Company does not intend its use or display of other companies’ trade names, trademarks, or service marks to imply a relationship with, or endorsement or sponsorship of the Company by, these other companies, and all such third-party trade names, trademarks, and service marks are the property of their respective owners.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "should," "would," "shall," "might," "expects," "plans," "anticip "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," or "continue" or the n these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial performance, including our revenue, cost of revenue, gross profit, gross margin, operating expenses, ability to generate positive cash flow, and ability to achieve and maintain GAAP (as defined below) and non-GAAP profitability;
- use of non-GAAP financial measures;
- the sufficiency of our cash and cash equivalents to meet our working capital, capital expenditure, and liquidity needs;
- our ability to attract and retain customers to use our products, to optimize the pricing for our products, to expand our sales to our customers, and to convince our existing customers to renew subscriptions;
- the evolution of technologies affecting our products and markets;
- our ability to innovate and provide a superior user experience and our intentions and strategy with respect thereto;
- our ability to successfully penetrate enterprise markets;
- our ability to successfully expand in our existing markets and into new markets, including international markets;
- the attraction and retention of key personnel;
- our ability to effectively manage our growth and future expenses;
- our ability to maintain, protect, and enhance our intellectual property;
- worldwide economic conditions and their impact on spending; and
- our ability to comply with modified or new laws and regulations applying to our business, including privacy and data security regulations.

We caution you that the foregoing list does 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, operating results, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the sections titled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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 made in this Quarterly Report on Form 10-Q 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. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
NEW RELIC, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	December 31, 2017	March 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$125,237	$88,305
Short-term investments	107,799	118,101
Accounts receivable, net of allowance for doubtful accounts of $1,075 and $1,117, respectively	52,676	62,032
Prepaid expenses and other current assets	9,431	8,169
Total current assets	295,143	276,607
Property and equipment, net	52,572	50,728
Restricted cash	8,202	8,115
Goodwill	11,828	11,828
Intangible assets, net	1,508	2,499
Other assets	5,740	2,492
Total assets	$374,993	$352,269
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$3,737	$6,522
Accrued compensation and benefits	18,092	15,935
Other current liabilities	6,904	7,607
Deferred revenue	134,889	125,269
Total current liabilities	163,622	155,333
Deferred rent, non-current	8,159	8,272
Deferred revenue, non-current	453	1,135
Other liabilities, non-current	709	685
Total liabilities	172,943	165,425
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock, $0.001 par value; 100,000 shares authorized at December 31, 2017 and March 31, 2017; 55,657 shares and 53,539 shares issued at December 31, 2017 and March 31, 2017, respectively; and 55,397 shares and 53,279 shares outstanding at December 31, 2017 and March 31, 2017, respectively	56	53
Treasury stock - at cost (260 shares)	(263)	(263)
Additional paid-in capital	501,004	447,314
Accumulated other comprehensive loss	(229)	(96)
Accumulated deficit	(298,518)	(260,164)
Total stockholders' equity	202,050	186,844
Total liabilities and stockholders' equity	$374,993	$352,269

See notes to condensed consolidated financial statements.

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NEW RELIC, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Revenue	$91,827	$68,096	$256,610	$190,143
Cost of revenue	15,671	12,627	46,342	36,060
Gross profit	76,156	55,469	210,268	154,083
Operating expenses:				
Research and development	18,154	14,377	54,686	45,087
Sales and marketing	51,393	43,458	152,015	122,626
General and administrative	14,596	11,578	42,843	32,647
Total operating expenses	84,143	69,413	249,544	200,360
Loss from operations	(7,987)	(13,944)	(39,276)	(46,277)
Other income (expense):				
Interest income	534	325	1,503	796
Interest expense	(21)	(21)	(64)	(63)
Other income (expense), net	(45)	(280)	117	(517)
Loss before income taxes	(7,519)	(13,920)	(37,720)	(46,061)
Income tax provision (benefit)	210	(37)	634	23
Net loss	$(7,729)	$(13,883)	$(38,354)	$(46,084)
Net loss per share, basic and diluted	$(0.14)	$(0.27)	$(0.70)	$(0.90)
Weighted-average shares used to compute net loss per share, basic and diluted	55,196	52,328	54,534	51,297

See notes to condensed consolidated financial statements.

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2017	2016	2017	2016
Net loss	$(7,729)	$(13,883)	$(38,354)	$(46,084)
Other comprehensive loss:				
Unrealized loss on available-for-sale securities, net of tax	(135)	(86)	(133)	(87)
Comprehensive loss	$(7,864)	$(13,969)	$(38,487)	$(46,171)

See notes to condensed consolidated financial statements.

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

	Nine Months Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net loss:	$(38,354)	$(46,084)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	17,306	13,356
Stock-based compensation expense	29,778	23,719
Other	498	822
Changes in operating assets and liabilities:		
Accounts receivable	9,223	(6,478)
Prepaid expenses and other assets	(4,438)	(1,651)
Accounts payable	(829)	1,125
Accrued compensation and benefits and other liabilities	2,475	3,307
Deferred revenue	8,938	18,169
Deferred rent	(504)	3,052
Net cash provided by operating activities	24,093	9,337
Cash flows from investing activities:		
Purchases of property and equipment	(17,577)	(16,601)
Increase in restricted cash	(87)	—
Purchases of short-term investments	(78,074)	(116,285)
Proceeds from sale and maturity of short-term investments	88,232	126,113
Capitalized software development costs	(3,054)	(3,075)
Net cash used in investing activities	(10,560)	(9,848)
Cash flows from financing activities:		
Proceeds from employee stock purchase plan	3,029	2,504
Proceeds from exercise of employee stock options	20,370	12,263
Net cash provided by financing activities	23,399	14,767
Net increase in cash and cash equivalents	36,932	14,256
Cash and cash equivalents, beginning of period	88,305	65,914
Cash and cash equivalents, end of period	$125,237	$80,170
Supplemental disclosure of cash flow information:		
Cash paid for interest and income taxes	$358	$226
Noncash investing and financing activities:		
Property and equipment purchased but not yet paid	$256	$2,534

See notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1.Description of Business and Summary of Significant Accounting Policies

Description of Business—New Relic, Inc. (the “Company” or “New Relic”) was founded in 2007 and incorporated in Delaware on February 20, 2008. The Company is a software-as-a-service provider of digital intelligence products that allow users to monitor software and infrastructure performance and measure end-user activities across desktop and mobile devices with applications deployed in the cloud or in a data center. New Relic’s digital intelligence products and platform capabilities enable software developers, IT operations, and business users to better understand their digital business.

Basis of Presentation—These unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) and applicable rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2017, as filed with the SEC on May 18, 2017 (the “Annual Report”). There have been no changes to the Company’s significant accounting policies described in the Annual Report that have had a material impact on its condensed consolidated financial statements and related notes.

In the opinion of management, the unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, comprehensive loss and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending March 31, 2018. The condensed consolidated balance sheet as of March 31, 2017 included herein was derived from the audited financial statements as of that date.

Use of Estimates—The preparation of the Company’s condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the condensed consolidated financial statements; therefore, actual results could differ from management’s estimates.

Concentration of Risk—There were no customers that represented more than 10% of the Company’s accounts receivable balance as of December 31, 2017. One customer represented 12% of the Company’s accounts receivable balance as of March 31, 2017. There were no customers that individually exceeded 10% of the Company’s revenue during the three and nine months ended December 31, 2017 or 2016.

Short-term Investments—Short-term investments consist of commercial paper, certificates of deposit, U.S. treasury securities, U.S. agency securities, and corporate debt securities and are classified as available-for-sale securities. 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 securities are carried at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income, while realized gains and losses are reported within the statement of operations. The Company reviews its debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. The Company considers factors such as the length of time and extent to which the market value has been less than the cost, the financial position and near-term prospects of the issuer, and the Company’s intent to sell, or whether it is more likely than not the Company will be required to sell the investment before recovery of the investment’s amortized-cost basis. If the Company determines that an other-than-temporary decline exists in one of these securities, the respective investment would be written down to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized as other income, net in the condensed consolidated statement of operations. Any portion not related to credit loss would be included in accumulated other comprehensive income (loss). The Company did not identify any investments as other-than-temporarily impaired as of December 31, 2017 and March 31, 2017.

Business Combinations—The Company recognizes identifiable assets acquired and liabilities assumed at their acquisition date fair value. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, its estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent that the Company identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's condensed consolidated statements of operations. There has been no such adjustment as of December 31, 2017.

Goodwill—Goodwill represents the excess of the purchase price of an acquired business over the fair value of the underlying net tangible and intangible assets. Goodwill is evaluated for impairment annually in the third quarter of the Company's fiscal year, and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of goodwill or a significant decrease in expected cash flows. Since inception through December 31, 2017, the Company has not had any goodwill impairment.

Intangible Assets—Intangible assets consist of identifiable intangible assets, primarily developed technology, resulting from the Company's acquisitions. Acquired intangible assets are recorded at cost, net of accumulated amortization. Intangible assets are amortized on a straight-line basis over their estimated useful lives.

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new guidance provides principles for recognizing revenue to which an entity expects to be entitled for the transfer of promised goods or services to customers. The new guidance will be effective for the Company in its fiscal year beginning April 1, 2018. The guidance may be applied retrospectively to each prior period presented (full retrospective method), or with the cumulative effect recognized as of the date of initial adoption (modified retrospective method). The Company currently intends to adopt Topic 606 using the modified retrospective approach in the first quarter of fiscal year 2019. As the Company continues to assess the new standard along with industry trends and internal progress, the Company may adjust its implementation plan accordingly.

The Company anticipates that the significant impacts of adopting Topic 606 will include the deferral of incremental commission costs of obtaining contracts and additional disclosure requirements. Currently, the Company records commissions as sales and marketing expenses as incurred. Under the new standard, the Company will capitalize incremental commissions related to initial contracts over the expected period of benefit. The Company has not yet concluded the amortization period of these capitalized costs, which will affect the classification and magnitude of the deferred costs at each reporting period. The Company will continue to quantify the effects of adopting Topic 606 on its condensed consolidated financial statements, including the impact on its revenue as well as the changes discussed above.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. ASU 2016-02 states that a lessee would recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The new standard will be effective for the Company in the fiscal year beginning April 1, 2019; early adoption is permitted. The amendments require a modified retrospective approach with optional practical expedients. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The Company adopted this standard in the first quarter of fiscal year 2018. Upon adoption, the Company recognized all of the previously unrecognized excess tax benefits related to stock awards using the modified retrospective transition method. These excess tax benefits, recognized upon adoption, were recorded as a deferred tax asset, which was then fully offset by the U.S. federal and state deferred tax asset valuation allowance resulting in no impact to the accumulated deficit.

Without the valuation allowance, the Company’s deferred tax asset would have increased by $39.5 million. All future excess tax benefits resulting from the settlement of stock awards will be recorded to the income tax provision.
In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities. The updated guidance requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a write-down. The measurement of credit losses for newly recognized financial assets and subsequent changes in the allowance for credit losses are recorded in the statement of income. The update to the standard will be effective for the Company in the fiscal year beginning April 1, 2020; early adoption is permitted in the fiscal

year beginning April 1, 2019. The Company is currently evaluating the effect the standard will have on its condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements. The ASU provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting. The new guidance will be effective for the Company in its fiscal year beginning April 1, 2018. The Company is currently evaluating the impact of this standard on its condensed consolidated financial statements.

2. Fair Value Measurements

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of December 31, 2017 and March 31, 2017 based on the three-tier fair value hierarchy (in thousands):

	Fair Value Measurements as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	$42,280	$—	$ —	$42,280
Commercial paper	—	6,486	—	6,486
U.S. treasury securities	2,997	—	—	2,997
U.S. government agencies	—	3,925	—	3,925
Short-term investments:				
Certificates of deposit	—	25,601	—	25,601
Commercial paper	—	12,648	—	12,648
Corporate notes and bonds	—	15,837	—	15,837
U.S. treasury securities	18,937	—	—	18,937
U.S. government agencies	—	34,776	—	34,776
Restricted cash:				
Money market funds	8,202	—	—	8,202
Total	$72,416	$99,273	$ —	$171,689
Included in cash and cash equivalents				$55,688
Included in short-term investments				$107,799
Included in restricted cash				$8,202

	Fair Value Measurements as of March 31, 2017			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents:				
Money market funds	$36,180	$—	$ —	$36,180
Commercial paper	—	5,441	—	5,441
U.S. government agencies	—	2,600	—	2,600
Short-term investments:				
Certificates of deposit	—	28,210	—	28,210
Commercial paper	—	10,549	—	10,549
Corporate notes and bonds	—	17,378	—	17,378
U.S. treasury securities	11,276	—	—	11,276
U.S. government agencies	—	50,688	—	50,688
Restricted cash:				
Money market funds	8,115	—	—	8,115
Total	$55,571	$114,866	$ —	$170,437

Included in cash and cash equivalents	$44,221
Included in short-term investments	$118,101
Included in restricted cash	$8,115

There were no transfers between fair value measurement levels during the nine months ended December 31, 2017 and 2016.

Gross unrealized gains or losses for cash equivalents and short-term investments as of December 31, 2017 and March 31, 2017 were not significant. As of December 31, 2017 and March 31, 2017, there were no securities that were in an unrealized loss position for more than 12 months.

The following table classifies the Company's available-for-sale short-term investments by contractual maturities as of December 31, 2017 and March 31, 2017 (in thousands):

	December 31, 2017	March 31, 2017
Due within one year	$92,163	$92,874
Due in one to two years	15,636	25,227
Total	$107,799	$118,101

For certain other financial instruments, including accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these balances.

3. Property and Equipment

Property and equipment, net, consisted of the following (in thousands):

	December 31, 2017	March 31, 2017
Computers, software, and equipment	$8,023	$7,060
Site operation equipment	36,396	25,874
Furniture and fixtures	2,375	1,770
Leasehold improvements	31,943	30,586
Capitalized software development costs	36,199	32,618
Total property and equipment	114,936	97,908
Less: accumulated depreciation and amortization	(62,364)	(47,180)
Total property and equipment, net	$52,572	$50,728

Depreciation and amortization expense related to property and equipment was $5.5 million and $4.6 million for the three months ended December 31, 2017 and 2016, respectively, and $16.3 million and $12.6 million for the nine months ended December 31, 2017 and 2016, respectively.

4. Goodwill and Purchased Intangibles Assets

There were no changes to the carrying amount of goodwill for the nine months ended December 31, 2017.

Purchased intangible assets subject to amortization as of December 31, 2017 consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 4,900	$ (3,392)	$ 1,508

Purchased intangible assets subject to amortization as of March 31, 2017 consist of the following (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Developed technology	$ 4,900	$ (2,401)	$ 2,499

Amortization expense of purchased intangible assets was $0.2 million and $0.2 million for the three months ended December 31, 2017 and 2016, respectively, and $1.0 million and $0.7 million for the nine months ended December 31, 2017 and 2016, respectively.

Estimated future amortization expense as of December 31, 2017 is as follows (in thousands):

Fiscal Years Ending March 31,	Estimated Future Amortization Expense
2018 (remaining 3 months)	$ 196
2019	787
2020	525
	$ 1,508

5. Commitments and Contingencies

Leases—The Company leases office space under non-cancelable operating lease agreements, which expire from 2018 through 2027.