Cornerstone OnDemand Inc
Form 10-K
February 26, 2019

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

FORM 10-K
(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
Or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-35098

Cornerstone OnDemand, Inc.
(Exact name of registrant as specified in its charter)

Delaware	13-4068197
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1601 Cloverfield Blvd.
Suite 620 South
Santa Monica, California 90404
(Address of principal executive offices and zip code)
Registrant’s telephone number, including area code: (310) 752-0200
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	Nasdaq Stock Market LLC (Nasdaq Global Select Market)

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”). Yes ¨ No ý
Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).   Yes ý   No ¨
Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.   ý
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. (Check one):

Large accelerated filer	ý	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 ý
The aggregate market value of voting and non-voting common stock equity held by non-affiliates of the registrant, as of June 30, 2018, the last day of the registrant's most recently completed second fiscal quarter, was $1,303,889,877 (based on the closing price for shares of the registrant's common stock as reported by the Nasdaq Global Select Market on June 30, 2018).
On February 20, 2019, 59,100,210 shares of the registrant's common stock, $0.0001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE
Portions of the information called for by Part III of this Form 10-K are hereby incorporated by reference from the Definitive Proxy Statement for the registrant's annual meeting of stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2018.

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TRADEMARKS

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are any statements that look to future events and consist of, among other things, statements regarding our business strategies; anticipated future operating results and operating expenses; our ability to attract new clients to enter into subscriptions for our products; our ability to service those clients effectively and induce them to renew and upgrade their deployments of our products; our ability to expand our sales organization to address effectively the new industries, geographies and types of organizations we intend to target; our ability to accurately forecast revenue and appropriately plan our expenses; market acceptance of enhanced products; alternate ways of addressing talent management needs or new technologies generally by us and our competitors; continued acceptance of SaaS as an effective method for delivering human capital management products and other business management products; the attraction and retention of qualified employees and key personnel; our ability to protect and defend our intellectual property; costs associated with defending intellectual property infringement and other claims; our ability to exploit Big Data to drive increased demand for our products; events in the markets for our products and alternatives to our products, as well as in the United States and global markets generally; future regulatory, judicial and legislative changes in our industry; our ability to successfully integrate our operations with those of recently acquired companies; and changes in the competitive environment in our industry and the markets in which we operate. In addition, forward-looking statements also consist of statements involving trend analyses and statements including such words as “may,” “believe,” “could,” “anticipate,” “would,” “might,” “plan,” “expect,” and similar expressions or the negative of such terms or other comparable terminology. These forward-looking statements speak only as of the date of this Annual Report on Form 10-K and are subject to business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth below in Part I, Item 1A, “Risk Factors,” and in our other reports filed with the Securities and Exchange Commission. We assume no obligation to update the forward-looking statements to reflect events that occur or circumstances that exist after the date on which they were made.

Item 1. Business

Overview

Cornerstone OnDemand, Inc. was incorporated on May 24, 1999 in the state of Delaware and began its principal operations in November 1999. Unless the context requires otherwise, the words “Cornerstone,” “we,” “Company,” “us” and “our” refer to Cornerstone OnDemand, Inc. and its wholly owned subsidiaries.

We were founded with a passion for empowering people through learning and a conviction that people should be an organization's greatest competitive advantage. We are a global human capital management leader with a core belief that companies thrive when they help their employees to realize their potential. Putting this belief into practice, we offer solutions to help companies strategically manage and continuously develop their talent throughout the entire employee lifecycle. Featuring comprehensive recruiting, personalized learning, development-driven performance management, and holistic HR planning, our human capital management platform is successfully used by more than 3,535 global clients of all sizes, spanning more than 40 million users across 192 countries and 43 languages.

We work with clients across all geographies, verticals and market segments. Our clients include multi-national corporations, large domestic and foreign-based enterprises, mid-market companies, public sector organizations, healthcare providers, higher education institutions, non-profit organizations and small businesses. We sell our platform domestically and internationally through both direct and indirect channels, including direct sales teams throughout North and South America, Europe and Asia-Pacific and distributor relationships with payroll companies, human resource consultancies and global system integrators.

Our enterprise human capital management platform is composed of four product suites:

- Our Recruiting suite helps organizations to attract, hire, and onboard the right employees;
- Our Learning suite provides robust, modern learning management software designed to scale with the organization. Cornerstone Learning comprehensively supports compliance, knowledge sharing, and employee-driven development training to close skills gaps. Our content offering delivers fresh, modern content, fueling employee curiosity and

inspiring growth;

- Our Performance suite provides tools to manage goal setting, performance reviews, competency assessments, development plans, continuous feedback, compensation management and succession planning; and
- Our HR suite provides an aggregated view of all employee data with workforce planning, self-service management, and compliance reporting capabilities resulting in more accurate data.

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The Market

The Human Capital Management ("HCM") technology market is one of the largest in the software industry. According to an International Data Corporation ("IDC") market forecast report, titled "Worldwide Human Capital Management and Payroll Applications Forecast, 2017-2021," published in June 2017, the global market for Human Capital Management and Payroll Applications in 2018 was predicted to be $19.7 billion, of which $15 billion is for HCM applications. According to IDC, the HCM application market in particular is expected to grow to $19.7 billion by 2021, representing a 9.0% CAGR, and includes payroll, HR, talent acquisition, workforce management, document management, performance management, compensation management, and succession planning.

The global corporate training market is also one of the largest in the software industry. According to a Training Industry, Inc. report, titled "The Anatomy of the Modern Learning System," global spend on corporate training initiatives was estimated to be $362 billion in 2017, of which approximately $25 billion was spent on third-party external training courses in North America.

Our Human Capital Management Platform

Our human capital management platform is a comprehensive Software-as-a-Service ("SaaS") solution that consists of four integrated suites to help organizations manage their recruiting, learning, performance and HR administration processes. These suites are supplemented by state-of-the-art analytics and reporting as well as a number of cross-product tools for employee profile management and e-learning content aggregation and delivery. We believe that our human capital management platform delivers the following benefits:

- Comprehensive Functionality. Our platform provides a comprehensive approach to human capital management by offering products to address all stages of the employee lifecycle: recruiting, onboarding, learning, performance, succession, compensation, enterprise social collaboration and HR administration processes. Employees use our platform throughout their careers to engage in performance processes such as goal management, performance reviews, continuous feedback, competency assessments and compensatory reviews; to complete job-specific and compliance-related training; to evaluate potential career changes, development plans or succession processes; and to connect and collaborate with co-workers by leveraging enterprise social networking tools. Employee managers and HR managers use our platform to perform their human capital administrative responsibilities effectively throughout their employees' careers. We believe our comprehensive, unified platform enables our clients to align their human capital management processes and practices with their broader strategic goals.
- Flexible and Highly Configurable. Our platform offers substantial configurability that allows our clients to match the use of our software with their specific business processes and workflows. We also provide web services to facilitate the importing and exporting of data to and from other client systems, such as enterprise resource planning and human resource information system platforms. Our clients can configure various features, functions and work flows in our platform by business unit, division, department, region, location, job position, pay grade, cost center, or self-defined organizational unit. Our clients are able to adjust features to configure specific processes, such as performance review workflows or training approvals, to match their existing or desired practices. This high level of configurability means that custom coding projects generally are not required to meet the diverse needs of our clients.
- Easy-to-Use, Personalized User Interface. Our platform employs an intuitive user interface and may be personalized for the end user, typically based on position, division, pay grade, location, manager and particular use of the solution. This ease of use limits the need for end-user training, which we believe increases user adoption rates and usage.
- Software-as-a-Service Solution Lowers the Total Cost of Ownership and Speeds Delivery. Our platform is accessible through a standard web browser and does not require the large investments in implementation time, personnel, hardware and consulting that are typical of hosted or on-premise solutions. With a single code base to maintain, we are able to release improved functionality on a quarterly basis. This is a more rapid pace than most hosted or on-premise solution providers can afford to deliver.
- Scalable to Meet the Needs of Organizations. Our platform has been used by Fortune 100 companies since 2001. While the complex needs of these global corporations required us to build a solution that can scale to support large, geographically-distributed employee bases, our platform is capable of supporting deployments of various sizes. Today we service 40 multi-national corporations with over 150,000 active users each. Our largest deployment is for over 600,000 users.

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- Insights and Predictive Analysis. Our platform leverages technology powered by a highly refined machine learning system for human capital management. We also offer a large network of shared talent data. This enables leaders to answer critical questions about how to better hire, manage, retain, and reward talent with dashboards that can be drilled down to individual employees. Enhanced by additional Cornerstone suite usage, these insights allow organizations to manage their human capital proactively and be strategic with initiatives that affect thousands of employees across many groups and locations.
- Continued Innovation through Collaborative Product Development. We work collaboratively with our clients on an ongoing basis to develop almost every part of our platform. The vast majority of our thousands of software features were designed using feedback from existing and prospective clients based on their specific functional requests.
- Focus on Data Privacy. We have designed our platform to meet certain rigorous industry and jurisdictional security standards and to help assure clients that their sensitive data is protected across the system. We ensure high levels of security by logically segregating each client's data from the data of other clients and by enforcing a consistent approach to roles and rights within the system. These restrictions limit system access to only those individuals authorized by our clients. We also employ multiple standard technologies, protocols and processes to monitor, test and certify the security of our infrastructure continuously.

Our Human Capital Management Solutions

Our comprehensive human capital management platform is a collection of four integrated suites to help organizations manage key phases of the employee life cycle. To complement our platform, we offer a number of cross-product tools for analytics and reporting, employee profile management and e-learning content aggregation.

Cornerstone Recruiting

Cornerstone Recruiting. Our applicant tracking product supports the modern ways that organizations attract and hire new employees. From easily tracking applicants through the hiring process, to managing interviews and tracking feedback, our solution simplifies processes to save recruiters and hiring managers time. With mobile-friendly, customizable career sites, organizations can showcase their unique employer brand to attract top talent.

Cornerstone Onboarding. Our onboarding product enables clients to tailor resources based on a new hire's specific position - avoiding wasted effort and enabling new hires to focus on meaningful activities that accelerate productivity to help new employees acclimate quickly by providing a personalized, modern, onboarding experience that equips them with the right resources. The onboarding product complements the recruiting product by providing a seamless and engaging experience for the employee, while reducing administrative burden and promoting collaboration across departments.

Our Recruiting suite is utilized by approximately 23% of our total base of 3,535 clients.

Cornerstone Learning

Cornerstone Learning. Our learning product helps clients deliver mobile-ready, enterprise-class training and development programs. It links employee development to other parts of the talent management lifecycle, including onboarding, performance management and succession planning. The learning product supports all forms of learning, including online, instructor-led and collaborative and on-the-job learning, as well as robust reporting and embedded predictive analytics. With tens of thousands of online training titles from dozens of global content providers accessible through our new engaging Learning Experience Platform, clients reduce overall training expenses, while quickly transforming their learning programs with modern, curated content. The access to personalized content delivered at scale with Cornerstone's machine learning technology builds a culture of continuous learning, boosting employee engagement and retention.

Cornerstone Extended Enterprise. Our extended enterprise product helps clients provide training and enablement to their customers, vendors and distributors. The extended enterprise product empowers clients to develop new profit centers, increase sales, cut support costs and boost channel productivity.

Cornerstone for Salesforce. Our Cornerstone for Salesforce product is an enablement solution for employees, partners and customers developed natively on the Salesforce.com platform. Cornerstone for Salesforce leverages clients' Salesforce investments across all products to build high-performance sales and service teams with triggered, just-in-time training, as well as leverage learning to engage and enable customers and partners.

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Cornerstone Content. Our Cornerstone Content solutions enable organizations to deliver fresh, modern content to their workforce. We have entered into license agreements with a wide range of vendors that provide off-the-shelf e-learning content and custom learning content development services. Through this network, we are able to offer an extensive library of online training content to our clients through our Learning Experience Platform. Content Anytime is our proprietary, foundational e-learning content subscription which integrates seamlessly into Cornerstone Learning. The subscription provides access to pre-curated packages around a variety of popular topics. We plan to expand our Content Anytime offering as part of our strategic initiative to grow our content sales.

Our Learning suite is utilized by approximately 87% of our total base of 3,535 clients.

Cornerstone Performance

Cornerstone Performance. Our performance management product allows clients to direct and measure performance at the individual, departmental and organizational levels through ongoing competency management, organizational goal setting, performance appraisal, development planning and feedback. Performance data can also be used by the learning product offering to set training priorities and to make informed workforce planning decisions.

Cornerstone Succession. Our succession product allows clients to proactively plan for organizational change and talent mobility. The succession product serves both the employee looking for career advancement and management team members planning for the future. Employees can share career preferences and discover development opportunities. Management team members can utilize tools provided to identify skill gaps, implement development plans and create talent pools for future needs.

Cornerstone Compensation. Our compensation product allows clients to reward their employees for hard work in direct relation to performance. The compensation product enables clients to make more informed decisions about the allocation of base pay, bonus and equity awards.

Our Performance suite is utilized by approximately 52% of our total base of 3,535 clients.

Cornerstone HR

Cornerstone HR. Our HR product offers a modern interface for centralized HR administration across an organization’s disparate systems. Acting as a source of truth for core employee and talent data, the system supports employee self-service, absence management, organization management and records administration.

Cornerstone View. Our view product allows clients to access HR data across our human capital management products. The view product enables organizations to utilize interactive data visualization tools to discover their top performers and future leaders, proactively answer workforce questions, and achieve business results.

Cornerstone Benchmark. Our benchmark product enables organizations to compare internal employee data with peers in external companies or across divisions, subdivisions, subsidiaries, or regions within their own organization. Both options allow the organization to visualize how they compare against custom and internal business segments across a variety of metrics.

Our HR suite is utilized by approximately 5% of our total base of 3,535 clients.

Our Strategy

Our goal is to empower people, organizations and communities to realize their potential with a comprehensive human capital management platform that is built to last. Our growth strategy since inception has been deliberate and focused on long-term success. This has allowed us to weather periods of economic turmoil and significant changes in the markets we serve without experiencing business contraction. We plan to continue with the same systematic approach in the future. Key elements of our strategy include:

Continue to Innovate and Extend Our Technological Leadership. We believe we have developed over the last twenty years a deep understanding of the human capital management challenges our clients face. We continually collaborate with our clients to build extensive functionality that addresses their specific needs and requests. We plan to continue to leverage our expertise in human capital management and client relationships to develop new products, features and functionality that will enhance our platform and expand our addressable market.

Retain and Expand Business with Existing Clients. We believe our existing installed base of clients offers a substantial opportunity for growth.

- Focus on Client Success, Retention and Growth. We believe focusing on our clients' success will lead to our own success. We have developed a Client Success Framework that governs our operating model. Since 2002, we have averaged annual gross dollar retention rates of approximately 95%. We strive to maintain our strong retention rates by continuing to provide our clients with high levels of service, support and increasing functionality.
- Sell Additional Products to Existing Clients. We believe there is a significant growth opportunity in selling additional functionality to our existing clients. Many clients have added functionality subsequent to their initial deployments as they recognize the benefits of our unified platform. As a result, approximately 71% of our clients today utilize two or more products and approximately 41% utilize three or more products. With our expanding product portfolio functionality, we believe significant upsell opportunity remains within our existing client base.

Focus on Growing Recurring Revenue. Beginning in 2018, we focused our go-to-market capabilities on driving recurring revenue growth. We believe our primary growth drivers are as follows:

- Invest in Direct Sales in North America. We believe that the market for human capital management is large and remains significantly underpenetrated. In particular, Recruiting and Content provide an opportunity to increase our recurring sales to both new and existing clients. Additionally, we believe the Small and Medium-sized Business (SMB) market represents a very large and underpenetrated opportunity.
- Significantly Grow Our International Operation. We believe a substantial opportunity exists to continue to grow sales of our platform internationally. We intend to grow our Europe, Middle-East and Africa ("EMEA") and Asia-Pacific and Japan ("APJ") operations. As of December 31, 2018, we had 827 clients in EMEA and 198 clients in APJ.
- Grow Our Cornerstone Content Anytime Sales. We believe there is a significant market opportunity for developing employees throughout their careers with modern, fresh e-learning content. Our Content Anytime subscription offering provides access to industry leading content which we believe will increase user engagement on our platform. Our content partners for Content Anytime include industry leaders as well as regional, functional and vertically-focused online training providers. In addition, we have agreements with providers of specific competency models for use by our clients directly in our human capital management platform. We intend to enter into additional license agreements to continue providing the best content available for our clients.
- Expand the Ecosystem. During 2018, we migrated a sizable portion of our implementation services to our partners. We have also expanded in recent years our relationships with various third-party consulting firms to deliver the successful implementation of our platform and to optimize our clients' use of our platform during the terms of their engagements. Our partner strategy and experience includes certifications and curricula developed to ensure successful delivery by our partners and continued high client satisfaction. We believe we have a significant opportunity to leverage these third-parties interested in building or expanding their businesses to increase our market penetration.

Increase Operating Income and Free Cash Flow. In November 2017, we announced a strategic plan designed to better position us for long-term growth and increase shareholder value. We believe managing our operating costs while making smart investments in scaling our middle and back-office operations to support recurring revenue growth is critical to our long-term success. We intend to focus on operational excellence initiatives that drive increases in operating income and free cash flow.

Acquisitions. We may acquire or invest in additional businesses, products or technologies that we believe will complement or expand our platform, enhance our technical capabilities or otherwise offer growth opportunities. Most recently, in November 2018, we acquired Grovo Learning, Inc., a leading provider of Microlearning® content, and in September 2018, we acquired Workpop Inc., a web and mobile solution for candidates and hiring managers in service-based industries. We completed these transactions to support our strategic initiatives to enhance the Recruiting and Content areas of our platform.

Global Client Success

We are dedicated to the success of our clients. We have developed a Client Success Framework which governs our operational model, the structure of our Client Management teams and the types of services necessary at each stage of a client's lifecycle.

Within this framework, we have developed the following roles with primary responsibility to our clients at various levels of their organizations:

- Client Executives who interact with executive-level sponsors and human resources executives at a client and are focused on the overall relationship, including sales to existing clients;

- Client Success Managers who work directly with executive-level sponsors and human resources executives at our clients to maximize the value of their investment in our human capital management platform; and
- Product Specialists who interact with client administrators and are focused on features and functions of our human capital management platform.

We believe this life cycle driven approach to client support and client success has contributed directly to our high client retention rate and high rankings for client satisfaction in independent research studies.

We offer support in multiple languages, at multiple levels and through multiple channels, including global support coverage available 24 hours a day, seven days a week. We use our own enterprise social collaboration product to provide our clients and distributors with a virtual community to collaborate on product design, release management and best practices.

We monitor client satisfaction internally as part of formalized programs and at regular intervals during the client lifecycle, including during the transition from sales to implementation, at the completion of a consulting project and daily based on interactions with our client-facing teams.

Technology, Operations and Research and Development

Our human capital management platform is designed and deployed with an on-demand, multi-tenant, and multi-user architecture which our clients access via a standard web browser. It currently uses a single code base, with all of our clients running on the current version of our software. We employ a modularized architecture to balance the load of clients on separate sub-environments, as well as to provide a flexible method for scalability without impacting other parts of the current environment. This architecture allows us to provide the high levels of uptime required by our clients. Our existing infrastructure has been designed with sufficient capacity to meet our current and estimated near term future needs. Global uptime in 2018 was 99.986%.

We physically host our human capital management platform for our clients in secure third-party data center facilities located in the United States, the United Kingdom, France, and Germany. These facilities provide physical security, including biometric access controls and systems security, redundant power and environmental controls.

We are continuing to build out services and functionality in the public cloud with a view to migrating more software to the public cloud over time. This strategy provides us flexibility to service customers in new and emerging regions and scale our deployment capabilities as we continue moving from a monolithic to a microservices architecture. We maintain the same or higher standards of security and compliance with our public cloud providers as we do in our leased facilities.

Our ability to compete depends largely on our continuous commitment to product development and ability to rapidly introduce new products, technologies, features, and functionality. The responsibilities of our research and development organization include product management, product development, quality assurance, IT security, and technology operations. Our research and development organization is global, with major engineering centers in the United States, Israel, New Zealand, and India.

Sales and Marketing

Sales

We sell our software, content and services both directly through our sales force and indirectly through our domestic and international network of distributors. We currently service clients in a wide range of industries, including, among others business services, financial services, healthcare, pharmaceuticals, insurance, manufacturing, retail and high technology. We have a number of direct sales teams organized by market segment, industry vertical, and geographic regions such as the Americas, EMEA, and Asia-Pacific and Japan.

Our direct sales team is supported by product specialists who provide technical and product expertise to facilitate the sales process. Our sales enablement professionals provide on-boarding and ongoing professional development for the sales professionals to increase their effectiveness at selling in the field. We also maintain a separate team of client executives responsible for renewals and up-sales to existing clients.

Marketing

We manage global demand generation programs, develop sales pipelines and enhance brand awareness through our marketing initiatives. Our marketing programs target HR executives, technology professionals and senior business leaders. Our principal marketing initiatives include:

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- Demand Generation. Our demand generation activities include lead generation through email and direct mail campaigns, participation in industry events, securing event speaking opportunities and online marketing, including both SEM and organic SEO online marketing.
- Corporate Marketing. We market to our clients by leveraging product marketing, client success stories, thought leadership content and brand awareness advertising campaigns. Additionally, we host regional client user group meetings and we also co-market with our strategic distributors, including joint press announcements and demand generation activities.
- Marketing Communications. We undertake media relations, corporate communications, industry analyst relations activities, client advocacy and social media outreach.

Competition

The market for human capital management software is highly competitive, rapidly evolving and fragmented. This market is subject to changing technology, shifting client needs and frequent introductions of new products and services.

Most of our sales efforts are competitive, often involving requests for proposals. We compete primarily on the basis of providing a highly configurable, comprehensive, fully unified platform for human capital management as opposed to specific service offerings.

In the applicant tracking systems segment, which our Recruiting suite offerings serve, our principal competitors include companies such as Oracle Corporation, International Business Machines Corporation and Saba Software, Inc. (Lumesse). In the learning management systems segment, which our Learning suite offerings each serve, our principal competitors include companies such as Oracle Corporation, Saba Software, Inc., SAP America, Inc. and SkillSoft Corp. In the performance management systems segment, which our Performance suite offerings each serve, our principal competitors include companies such as Saba Software, Inc., Talentsoft SA, Oracle Corporation, Peoplefluent, Inc. and SAP America, Inc. These vendors are, like us, largely SaaS providers. We compete in these segments primarily on the basis of:

- the level of integration of our product offerings within our human capital management platform;
- the breadth and depth of our product functionality;
- the flexibility and configurability of our product offerings to meet the changing content and workflow requirements of our clients' business units;
- the quality of our service and focus on client success;
- our ability to provide scalability and flexibility for large and complex global deployments; and
- the ease of use of our product offerings and overall user experience.

In addition, we occasionally compete with custom-built software that is designed to support the needs of a single organization, as well as with third-party talent and human resource application providers that focus on specific aspects of human capital management.

Many of our competitors and potential competitors have greater name recognition, longer operating histories and larger marketing budgets than we do. For additional information, see "Risk Factors—Risks Related to Our Business and Industry—The market in which we participate is intensely competitive and if we do not compete effectively, our operating results could be harmed" and "Risk Factors—Mergers of or other strategic transactions by our competitors could weaken our competitive position or reduce our revenue."

Proprietary Rights

To safeguard our proprietary and intellectual property rights, we rely upon a combination of patent, copyright, trade secret and trademark laws in the United States and in other jurisdictions and on contractual restrictions. We have confidentiality and license agreements with employees, contractors, clients, distributors and other third parties, which limit access to and use of our proprietary information and software.

Though we rely in part upon these legal and contractual protections, we believe that factors such as the skills and ingenuity of our employees, creation of new suites, features and functionality, collaboration with our clients and frequent enhancements to our platform are larger contributors to our success in the marketplace.

Government Contracts

Many of our contracts with government agencies are subject to termination at the election of the government agency. While our government contracts generally do not provide for renegotiation of fees at the election of the government, it is possible that the government agency could request, and that we could under certain circumstances agree to, the renegotiation of the payments otherwise payable under such contracts. However, we have not in the past renegotiated significant payment terms under our government contracts. For additional information, see “Risk Factors-Our sales to government entities are subject to a number of additional challenges and risks.”

Seasonality

Our sales are seasonal in nature. We sign a higher percentage of agreements with new clients, as well as renewal agreements with existing clients, in the fourth quarter of each year. In addition, within a given quarter, we sign a significant portion of these agreements during the last month, and often the last two weeks, of that quarter. Our agreements generally come up for renewal at the same time of the year they were originally signed, which further amplifies the seasonal nature of our sales.

We believe this seasonality is driven by several factors, most notably the tendency of our clients’ procurement departments to purchase technology at the end of a quarter or calendar year, possibly in order to use up their available quarterly or annual funding allocations.

Employees

At December 31, 2018, we had 1,953 employees. None of our employees are covered by a collective bargaining agreement and we have never experienced a strike or similar work stoppage. We consider our relations with our employees to be strong.

The Cornerstone OnDemand Foundation

To demonstrate our commitment to empowering people and communities, we helped form the Cornerstone OnDemand Foundation, or the Foundation, in 2010. The Foundation seeks to empower communities in the United States and internationally by increasing the impact of the non-profit sector through the utilization of our human capital management platform and capacity building programs.

The Foundation focuses its efforts on the areas of education, workforce development and disaster relief. We have enlisted the help of our employees, clients and distributors to support the Foundation in its efforts. The Foundation is designed to be self-sustaining over time through a variety of ongoing funding streams, such as donations, sponsorships and distribution fees.

Available Information

Our Internet address is www.cornerstoneondemand.com and our investor relations website is located at http://investors.cornerstoneondemand.com. We make available free of charge through our investor relations website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the SEC. Information contained on, or that can be accessed through, our website is not incorporated by reference into this report and you should not consider information on our website to be part of this report.

The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. Please see Part I, “Special Note Regarding Forward-Looking Statements” for a discussion of the forward-looking statements that are qualified by these risk factors. If any of the events or circumstances described in the following risk factors actually occurs, our business, operating results and financial condition could be materially adversely affected.

Risks Related to Our Business and Industry

Unfavorable conditions in our industry or the global economy, or reductions in information technology spending, could limit our ability to grow our business and negatively affect our operating results.

Our operating results may vary based on the impact of changes in our industry or the global economy on us or our clients. The revenue growth and potential profitability of our business depends on demand for enterprise application software generally and for human capital management platform in particular. We sell our human capital management platform primarily to large, mid-sized and small business organizations whose businesses fluctuate based on general economic and business conditions. In addition, a portion of our revenue is attributable to the number of users of our products at each of our clients, which in turn is influenced by the employment and hiring patterns of our clients and potential clients. To the extent that economic uncertainty or weak economic conditions cause our clients and potential clients to freeze or reduce their headcount, demand for our products may be negatively affected. Historically, economic downturns have resulted in overall reductions in spending on information technology and human capital management platforms as well as pressure from clients and potential clients for extended billing terms. If economic conditions deteriorate, our clients and potential clients may elect to decrease their information technology and human capital management budgets by deferring or reconsidering product purchases, which would limit our ability to grow our business and negatively affect our operating results.

Our business depends substantially on the level of our client satisfaction and specifically on clients renewing their agreements with us, purchasing additional products from us or adding additional users. Any significant decline in our client satisfaction rates or clients renewing their agreements, purchasing additional products or adding additional users would harm our future operating results.

In order for us to improve our operating results, it is important that our client satisfaction remains high and that our clients renew their agreements with us when the initial contract term expires and also purchase additional products or add additional users. Our clients have no obligation to renew their subscriptions after the initial subscription period, and we cannot assure you that our clients will renew their subscriptions at the same or a higher level of service, if at all. Every year, some of our clients elect not to renew their agreements with us. Moreover, certain of our clients have the right to cancel their agreements for convenience, subject to certain notice requirements and, in some cases, early termination fees. Our client renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our products, our pricing, the prices of competing products or services, mergers and acquisitions affecting our client base, reduced hiring by our clients or reductions in our clients’ spending levels. If our clients do not renew their subscriptions, renew on less favorable terms, fail to purchase additional products or fail to add new users, our revenue may decline and our operating results may be harmed.

If we fail to retain key employees and recruit qualified technical and sales personnel, our business could be harmed.

We believe that our success depends on the continued employment of our senior management and other key employees, such as our chief executive officer. In addition, because our future success is dependent on our ability to continue to enhance and introduce new software and services, we are heavily dependent on our ability to attract and retain qualified engineers with the requisite education, background and industry experience. As we expand our business, our continued success will also depend, in part, on our ability to attract and retain qualified sales, marketing and operational personnel capable of supporting a larger and more diverse client base. The loss of the services of a significant number of our engineers or sales people could be disruptive to our development efforts or business

relationships. In addition, if any of our key employees joins a competitor or decides to otherwise compete with us, we may experience a material disruption of our operations and development plans, which may cause us to lose clients or increase operating expenses as the attention of our remaining senior managers is diverted to recruit replacements for the departed key employees.
Changes to U.S. immigration and work authorization laws and regulations can be significantly affected by political forces and levels of economic activity. Our international expansion and our business may be materially adversely affected if legislative or administrative changes to immigration or visa laws and regulations impair our hiring processes or projects involving personnel who are not citizens of the country where the work is to be performed.
Our financial results may fluctuate due to various business factors, some of which may be beyond our control.
There are a number of other factors that may cause our financial results to fluctuate from period to period, including among others:
- changes in billing terms and collection cycles in client agreements;
- the extent to which new clients are attracted to our products to satisfy their human capital management needs;
- the timing and rate at which we sign agreements with new clients;
- our access to service providers and partners when we outsource client service projects;

- our ability to manage the quality and completion of the client implementations performed by partners;
- the timing and duration of our client implementations, which is often outside of our direct control;
- our ability to provide, or partner with effective partners to provide, resources for client implementations and consulting projects;
- the extent to which we retain existing clients and satisfy their requirements;
- the extent to which existing clients renew their subscriptions to our products and the timing of those renewals;
- the extent to which existing clients purchase or discontinue the use of additional products and add or decrease the number of users;
- the extent to which our clients request enhancements to underlying features and functionality of our products and the timing of our delivery of these enhancements to our clients;
- the addition or loss of large clients, including through acquisitions or consolidations;
- the number and size of new clients, as well as the number and size of renewal clients in a particular period;
- the mix of clients among large, mid-sized and small organizations;
- changes in our pricing policies or those of our competitors;
- seasonal factors affecting demand for our products or potential clients' purchasing decisions;
- the financial condition and creditworthiness of our clients;
- the amount and timing of our operating expenses, including those related to the maintenance, expansion and restructuring of our business, operations and infrastructure;
- changes in the operational efficiency of our business;
- the timing and success of our new product and service introductions;
- the timing of expenses of the development of new products and technologies, including enhancements to our products;
- our ability to exploit Big Data to drive increased demand for our products;
- continued strong demand for human capital management in the U.S. and globally;
- our ability to successfully integrate our operations with those of recently acquired privately-held companies;
- the success of current and new competitive products and services by our competitors;
- other changes in the competitive dynamics of our industry, including consolidation among competitors, clients or strategic partners;
- our ability to manage our existing business and future growth, including in terms of additional headcount, additional clients, incremental users and new geographic regions;
- expenses related to our network and data centers and the expansion of such networks and data centers;
- the effects of, and expenses associated with, acquisitions of third-party technologies or businesses and any potential future charges for impairment of goodwill resulting from those acquisitions;
- equity issuances, including as consideration in acquisitions or due to the conversion of our outstanding convertible notes due 2021;
- business disruptions, costs and future events related to shareholder activism;
- legal or political changes in local or foreign jurisdictions that decrease demand for, or restrict our ability to sell or provide, our products;
- fluctuations in foreign currency exchange rates, including any fluctuation caused by uncertainties relating to the United Kingdom's vote in favor of exiting the European Union (often referred to as "Brexit");
- general economic, industry and market conditions; and
- various factors related to disruptions in our SaaS hosting network infrastructure, defects in our products, privacy and data security and exchange rate fluctuations, each of which is described elsewhere in these risk factors.

In light of the foregoing factors, we believe that our financial results, including our revenue, operating income and free cash flows may vary significantly from period-to-period. As a result, period-to-period comparisons of our operating results may not be meaningful and should not be relied on as an indication of future performance.

Existing or future laws and regulations relating to privacy or data security could increase the cost of our products, limit their use and adoption, and subject us or our clients to litigation, regulatory investigations and penalties and other potential liabilities.

Our human capital management platform enables our clients to collect, manage and store a wide range of data, including personal data, related to every phase of the employee performance and management cycle. The United States and various state governments have adopted or proposed laws governing the collection, use, storage, sharing and processing of personal data. Several foreign jurisdictions, including but not limited to the European Union (the "EU") and its member states, the United Kingdom (the "UK"), Korea, Japan, Singapore, Australia and India, have adopted legislation (including directives or regulations) that increase or change the requirements governing the personal data of individuals in these jurisdictions. In some cases, these laws impose obligations not only on many of our clients, but also directly on us. These laws and regulations are complex and change frequently, at times due to differing economic conditions and changes in political climate, with new laws and regulations proposed frequently and existing laws and regulations subject to different and conflicting interpretations. These laws have the potential to increase costs of compliance, risks of noncompliance and penalties for noncompliance and the cost and complexity of selling and delivering our solutions.

For example, the EU's General Data Protection Regulation ("GDPR"), which took effect on May 25, 2018, imposes new obligations on our clients and directly on us. Among other obligations under the GDPR, we are required to give more detailed disclosure about how we collect, use and share personal data; contractually commit to data protection measures in our contracts with customers; maintain adequate data security measures; notify regulators and affected individuals of certain personal data breaches; meet extensive privacy governance and documentation requirements; and honor individuals' expanded data protection rights, including their rights to access, correct and delete their personal data. Companies that violate the GDPR can face fines of up to the greater of 20 million euros or 4% of their worldwide annual turnover.

In addition, the mechanisms allowing companies to transfer personal data outside of the European Economic Area ("EEA") face ongoing legal challenges in the EU and threaten our ability to lawfully process personal data where we operate outside of the EEA. One of these challenges has been brought against the EU-U.S. Privacy Shield Framework, which we rely on for transfers of personal data from the EEA to the United States. We also rely on the European Commission's recognition of Israel and New Zealand, where we maintain significant support centers, as providing an "adequate" level of protection for personal data transferred from the EEA to those countries. Finally, we rely on the European Commission's Standard Contractual Clauses for transfers of personal data from the EEA to India, where we also maintain a significant support center. Loss of our ability to lawfully transfer personal data out of the EEA to these or any other jurisdictions may cause reluctance or refusal by current or prospective European clients to use our products. Additionally, other countries outside of the EEA have passed or are considering passing laws requiring local data residency, which could increase the cost and complexity of delivering our services.

Further, "Brexit" has created uncertainty with regard to data protection regulation in the United Kingdom, where our operations involve the processing of EU residents' personal data. In particular, it is unclear whether, after Brexit, the UK will enact data protection legislation equivalent to the GDPR and how data transfers to and from the UK will be regulated. Thus, it is uncertain whether our operations in, and data transfers to and from, the UK, can comply with UK and EU law post-Brexit.

Just over a month after the GDPR took effect, the California legislature passed the California Consumer Privacy Act of 2018 ("CCPA"), which takes effect on January 1, 2020. The CCPA gives California residents certain rights similar to the individual rights given under the GDPR, including the right to access and delete their personal information, opt out of certain personal information sharing and receive detailed information about how their personal information is used. The CCPA prohibits discrimination against individuals who exercise their privacy rights, provides for civil penalties for violations, and creates a private right of action for data breaches that is expected to increase data breach litigation.

The costs of compliance with, and other burdens imposed by, privacy and data security laws and regulations may limit the use and adoption of our services, lead to negative publicity, reduce overall demand for our services, make it more difficult to meet expectations of or commitments to customers, require us to take on more onerous obligations in our contracts with customers, lead to significant fines, penalties or liabilities for noncompliance, or slow the pace at which

we close sales transactions, any of which could harm our business. These laws could also impact our ability to offer, or our customers' ability to deploy, our services in certain locations. The costs, burdens and potential liabilities imposed by existing privacy laws could be compounded if other jurisdictions in the U.S. or abroad begin to adopt similar laws.
In addition to government activity, privacy advocacy and other industry groups have established or may establish new self-regulatory standards that may place additional burdens on our ability to provide our services globally. Our customers expect us to meet voluntary certifications and other standards established by third parties, such as ISO 27001. If we are unable to earn and maintain these certifications or meet these standards, it could adversely affect our ability to provide our solutions to certain customers and could harm our business.

Furthermore, concerns regarding data privacy and security may cause our customers' customers to resist providing the data necessary to allow our customers to use our services effectively. Even the perception that the privacy of personal information is not satisfactorily protected or does not meet regulatory requirements could inhibit sales of our products or services and could limit adoption of our cloud-based solutions.

Any of these matters could materially adversely affect our business, financial condition or operational results.

The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The market for human capital management platforms is highly competitive, rapidly evolving and fragmented. Many of our competitors and potential competitors are larger and have greater brand name recognition, much longer operating histories, larger marketing budgets and significantly greater resources than we do. In addition, with the introduction of new technologies and market entrants, we expect competition to intensify in the future. If we fail to compete effectively, our business will be harmed. Some of our principal competitors offer their products or services at a lower price, which has resulted in pricing pressures. Similarly, some competitors offer different billing terms, which has resulted in pressures on our billing terms. If we are unable to maintain our pricing levels and billing terms, our operating results could be negatively impacted. In addition, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses or the failure of our products to achieve or maintain more widespread market acceptance, any of which could harm our business.

We face competition from paper-based processes and desktop software tools. We also face competition from custom-built software that is designed to support the needs of a single organization, as well as from third-party talent and human resource application providers. These software vendors include, without limitation, International Business Machines Corporation, Oracle Corporation, Peoplefluent, Inc., Saba Software, Inc., SAP America, Inc., Skillsoft Corp., Talentsoft and Workday, Inc. In addition, some of the parties with which we maintain business alliances offer or may offer products or services that compete with our products or services.

Many of our competitors are able to devote greater resources to the development, promotion and sale of their products and services. In addition, many of our competitors have established marketing relationships, access to larger client bases and major distribution agreements with consultants, system integrators and distributors. Moreover, many software vendors can bundle human resource products or offer such products at a lower price as part of a larger product sale. In addition, some competitors may offer software that addresses one or a limited number of human capital management functions at a lower price point or with greater depth than our products. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or client requirements. Further, some potential clients, particularly large enterprises, may elect to develop their own internal products. For all of these reasons, we may not be able to compete successfully against our current and future competitors.

Our systems collect, access, use and store personal and other client proprietary information. As a result, we are subject to security risks and are required to invest significant resources to prevent, mitigate, or correct issues arising from potential or actual security breaches. If a security breach occurs, our reputation could be harmed, our business may suffer and we could incur significant liability.

Our human capital management platform involves the storage and transmission of clients' sensitive, proprietary and confidential information, including personal information, over the Internet (including public networks). Our security measures may be breached as a result of efforts by individuals or groups of hackers and sophisticated organizations, including state-sponsored organizations or nation-states. Our security measures could also be compromised by employee error or malfeasance, which could result in someone obtaining unauthorized access to, or denying authorized access to our IT systems, our customers' data or our data, including our intellectual property and other confidential business information. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information to gain access to our customers' data, our data or our IT systems.

Such breaches and other incidents can result in a risk of unauthorized, unlawful or inappropriate access to, denial of access to, disclosure of, or loss of our customers' or our sensitive, proprietary and confidential information, as well as damage to our IT systems and our ability to make required reporting and disclosures as a public company. An actual or perceived security breach or similar incident could adversely affect our operating results and financial condition due to loss of confidence in the security of our products, damage to our reputation, early termination of contracts, decline in sales, disruption to our operations, litigation, regulatory investigations and penalties, or other liabilities. In particular, federal, state and foreign governments continue to adopt new, or modify existing, laws requiring companies and their service providers to maintain certain security measures or to report data breaches to government authorities or affected individuals. In turn, customers' expectations for the security measures we implement have increased. If we experience security breaches that could have been prevented by measures required by these laws or our customer contracts, or fail to report security breaches within timeframes mandated by law or our customer contracts, we could face significant liability.

Techniques to compromise IT systems have become more complex over time and are often not identified until they are exploited. As a result, we may be unable to anticipate or prevent such techniques. Our products operate in conjunction with and are dependent on a broad range of products, components and third-party services, and a vulnerability in any of them can expose us to a security breach. In addition, our customers and their third-party service providers may not have adequate security measures in place to protect their data that is stored in our platform, and, because we do not control our customers or their service providers, we cannot prevent vulnerabilities in their security measures from being exploited.

Our efforts to detect, prevent and remediate known or potential security vulnerabilities, including those arising from third-party hardware or software, may result in additional direct and indirect costs.

Finally, if a high profile security breach occurs with respect to another SaaS provider, our clients and potential clients may lose trust in the security of the SaaS business model generally, which could adversely impact our ability to retain existing clients or attract new ones.

Any significant disruption in our SaaS hosting network infrastructure could harm our reputation, require us to provide credits or refunds, result in early terminations of client agreements or a loss of clients and adversely affect our business.

Our SaaS hosting network infrastructure is a critical part of our business operations. Our clients access our human capital management platform through a standard web browser and depend on us for fast and reliable access to our products. Our software is proprietary, and we currently rely on four third-party data center hosting facilities, which we lease, and the expertise of members of our engineering and software development teams for the continued performance of our platform. We are in the process of migrating our platform from our leased data center hosting facilities to public cloud third-party data center providers. After we complete this migration, we will rely extensively on these public cloud providers to provide to our clients and their users with fast and reliable access to our products. Any disruption of or interference with our SaaS hosting network infrastructure, including the services and operations of the public cloud providers could harm our reputation, business and results of operations. We have experienced, and may in the future experience, disruptions in our computing and communications infrastructure. Factors that may cause such disruptions that may harm our reputation include:

- human error;
- security breaches;
- telecommunications outages from third-party providers;
- computer viruses;
- acts of terrorism, sabotage or other intentional acts of vandalism, including cyber attacks;
- unforeseen interruption or damages experienced in moving hardware to a new location;
- fire, earthquake, flood and other natural disasters; and
- power loss.

Although we generally back-up our client databases hourly, store our data in more than one geographically distinct location at least weekly and perform real-time mirroring of data to disaster recovery locations, we do not currently offer immediate access to disaster recovery locations in the event of a disaster or major outage. Thus, in the event of any of the factors described above, or certain other failures of our computing infrastructure, clients may not be able to access their data for 24 hours or more and there is a remote chance that client data from recent transactions may be permanently lost or otherwise compromised. In addition, we may not have adequate insurance coverage to compensate for losses from a major interruption. Moreover, some of our agreements include performance guarantees and service level standards that obligate us to provide credits, refunds or termination rights in the event of a significant disruption in our SaaS hosting network infrastructure or other technical problems that relate to the functionality or design of our platform.

Defects in our platform could affect our reputation, result in significant costs to us and impair our ability to sell our products and related services.

Defects in our platform could adversely affect our reputation, result in significant costs to us and impair our ability to sell our products in the future. The costs incurred in correcting any product defects may be substantial and could adversely affect our operating results. Although we continually test our products for defects and work with clients through our client support organization to identify and correct errors, defects in our products are likely to occur in the future. Any defects that cause interruptions to the availability of our products could result in:

- lost or delayed market acceptance and sales of our products;
- early termination of client agreements or loss of clients;
- credits or refunds to clients;
- product liability suits against us;
- diversion of development resources;
- injury to our reputation; and
- increased maintenance and warranty costs.

While our client agreements typically contain limitations and disclaimers that purport to limit our liability for damages related to defects in our products, such limitations and disclaimers may not be enforced by a court or other tribunal or otherwise effectively protect us from such claims.

Evolving regulation of the Internet, changes in the infrastructure underlying the Internet, or interruptions in Internet access may adversely affect our financial condition by increasing our expenditures and causing client dissatisfaction.

As Internet commerce continues to evolve, regulation by federal, state or foreign agencies may increase. We are particularly sensitive to these risks because the Internet is a critical component of our business model. In addition, taxation of services provided over the Internet or other charges for accessing the Internet may be imposed by government agencies or private organizations. Changes in laws or regulations that adversely affect the growth, popularity or use of the Internet, or impact the way that Internet service providers treat Internet traffic, including laws impacting net neutrality, may negatively increase our operating costs or otherwise impact our business. Any regulation imposing greater fees for Internet use or restricting information exchanged over the Internet could result in a decline in the use of the Internet and the viability of Internet-based services, which could harm our business.

In addition, the rapid and continual growth of traffic on the Internet has resulted at times in slow connection and download speeds among Internet users. Our business expansion may be harmed if the Internet infrastructure cannot handle our clients’ demands or if hosting capacity becomes insufficient. If our clients become frustrated with the speed at which they can utilize our products over the Internet, our clients may discontinue the use of our human capital management platform and choose not to renew their contracts with us. Further, the performance of the Internet has also been adversely affected by viruses, worms, hacking, phishing attacks, denial of service attacks and other similar malicious programs, as well as other forms of damage to portions of its infrastructure, which have resulted in a variety of Internet outages, interruptions and other delays. These service interruptions could diminish the overall attractiveness of our products to existing and potential users and could cause demand for our products to suffer.

Failure to effectively retain, expand, and continue to increase the productivity of our direct sales teams and develop and expand our indirect sales channel will impede our growth.

We will need to continue to increase the productivity of and expand our sales and marketing infrastructure in order to grow our client base and our business. We plan to expand our direct sales teams and engage additional third-party distributors, both domestically and internationally. Identifying, recruiting and training these people and entities will require significant time, expense and attention. Our business will be seriously harmed and our financial resources will be wasted if our efforts to expand our direct and indirect sales channels do not generate a corresponding increase in revenue, and we may be required to sacrifice near-term growth and divert management attention in order to restructure our direct sales teams. In particular, if we are unable to achieve our expected productivity increases, we may not be able to significantly increase our revenue, profitability and/or free cash flows.

If for any reason we are not able to develop enhancements and new features, keep pace with technological developments or respond to future disruptive technologies, our business will be harmed.

Our future success will depend on our ability to adapt and innovate. To attract new clients and increase revenue from existing clients, we will need to enhance and improve our existing products and introduce new features. The success of any enhancement or new feature depends on several factors, including timely completion, introduction and market acceptance. If we are unable to enhance our existing products to meet client needs or successfully develop or acquire new features or products, or if such new features or products fail to be successful, our business and operating results will be adversely affected.

In addition, because our products are designed to operate on a variety of network, hardware and software platforms using Internet tools and protocols, we will need to continuously modify and enhance our products to keep pace with changes in internet-related hardware, software, communication, browser and database technologies. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments, our products may become less marketable and less competitive or obsolete, and our operating results may be negatively impacted.

Finally, our ability to grow is subject to the risk of future disruptive technologies. If new technologies emerge that are able to deliver a human capital management platform at lower prices, more efficiently or more conveniently, such technologies could adversely impact our ability to compete.

We rely significantly on implementation partners to deliver professional services to our clients, and if these implementation partners fail to deliver these professional services effectively, or if we are unable to incentivize new partners to service our customers, our operating results will be harmed.

We rely significantly on various partners to assist us in the successful implementation of our products and to optimize our clients' use of our products during the terms of their engagements. We provide our implementation partners with specific training and programs to assist them in servicing our clients, but there can be no assurance that these steps will be utilized or effective. If these partners fail to deliver these services to our customers in an effective and timely manner, we may suffer reputational harm and our results of operations may be adversely impacted. We also may not be able to incentivize new partners to service our customers. If we are unable to maintain our existing relationships or enter into new ones, we would have to devote substantially more resources to delivering our professional services. If we fail to effectively manage our implementation partners, our ability to sell our products and subscriptions and our operating results will be harmed.

Our growth depends in part on the success of our strategic relationships with third parties.

We anticipate that we will continue to depend on various third-party relationships in order to grow our business. In addition to growing our indirect sales channels, we intend to pursue additional relationships with other third parties, such as technology and content providers and implementation consultants. For example, in June 2018 we expanded our learning and content offerings with new content partnerships and learning content subscriptions, in addition to the availability of integrations with LinkedIn Learning and Workplace by Facebook. Identifying, negotiating and documenting relationships with third parties require significant time and resources, as does integrating third-party content and technology. Our agreements with distributors and providers of technology, content and consulting services are typically non-exclusive and do not prohibit them from working with our competitors or from offering competing services. Our competitors may be effective in providing incentives to third parties to favor their products or services or to prevent or reduce subscriptions to our products. In addition, these distributors and providers may not perform as expected under our agreements, and we have had and may in the future have, disagreements or disputes with such distributors and providers, which could negatively affect our brand and reputation. A global economic slowdown could also adversely affect the businesses of our distributors and it is possible that they may not be able to devote the resources we expect to our relationships with such distributors.

If we are unsuccessful in establishing or maintaining our relationships with these third parties, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results could suffer. Even if we are successful, we cannot assure you that these relationships will result in improved operating results.

Our financial results may fluctuate due to our long, variable and, therefore, unpredictable sales cycle and our focus on large and mid-market organizations.

We plan our expenses based on certain assumptions about the length and variability of our sales cycle. If our sales cycle becomes longer or more variable, our results may be adversely affected. Our sales cycle generally varies in duration from two to nine months and, in some cases, much longer depending on the size of the potential client. Factors that may influence the length and variability of our sales cycle include among others:

- the need to educate potential clients about the uses and benefits of our products;
- the relatively long duration of the commitment clients make in their agreements with us;
- the discretionary nature of potential clients' purchasing and budget cycles and decisions;
- the competitive nature of potential clients' evaluation and purchasing processes;
- the lengthy purchasing approval processes of potential clients;
- the evolving functionality demands of potential clients;
- fluctuations in the human capital management needs of potential clients; and
- announcements or planned introductions of new products by us or our competitors.

The fluctuations that result from the length and variability of our sales cycle may be magnified by our focus on sales to large and mid-sized organizations. If we are unable to close an expected significant transaction with one or more of these companies in a particular period, or if an expected transaction is delayed until a subsequent period, our operating results for that period, and for any future periods in which revenue from such transaction would otherwise have been recognized, may be adversely affected.

Mergers of or other strategic transactions by our competitors could weaken our competitive position or reduce our revenue.

If one or more of our competitors were to merge, acquire or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. For example, in May 2017, Saba Software, Inc. acquired Halogen Software, Inc.; and in October 2018, Saba Software, Inc. acquired Lumesse. Our competitors may also establish or strengthen cooperative relationships with our current or future strategic distributors, systems integrators, HR outsourcers, payroll services companies, third-party consulting firms or other parties with whom we have relationships, thereby limiting our ability to promote our products and limiting the number of consultants available to implement our products. Disruptions in our business caused by these events could reduce our revenue.

Our business and operations are experiencing growth and organizational change. If we fail to effectively manage such growth and change in a manner that preserves the key aspects of our corporate culture, our business and operating results could be harmed.

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 operational, financial and management resources. We may continue to expand our international operations into other countries in the future, either organically or through acquisitions. We have also experienced significant growth in the number of users, transactions and data that our SaaS hosting infrastructure supports. Finally, our organizational structure is becoming more complex as we improve our operational, financial and management controls as well as our reporting systems and procedures. We will require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining our corporate culture of rapid innovation, teamwork and attention to client success that has been central to our growth so far. If we fail to manage our anticipated growth and change in a manner that preserves the key aspects of our corporate culture, the quality of our products may suffer, which could negatively affect our brand and reputation and harm our ability to retain and attract clients.

For a detailed discussion of the risks related to our ability to expand our business internationally, manage growth in our SaaS hosting network infrastructure and expand parts of our organization to implement improved operational, financial and management controls and reporting systems and procedures, see the risk factors titled "—As a public company, we are obligated to maintain proper and effective internal control over financial reporting. If our internal control over financial reporting is ineffective, our financial reporting may not be accurate, complete and timely and our auditors may be unable to attest to its effectiveness when required, thus adversely affecting investor confidence in our company.” and “—We currently have a number of international offices and are expanding our international operations. Doing business internationally has unique risks with respect to operational execution and regulatory compliance.”

Fluctuations in the exchange rate of foreign currencies could result in foreign currency gains and losses.
We conduct our business in the Americas, Europe, and Asia Pacific. As we continue to expand our international operations, we will become more exposed to the effects of fluctuations in currency exchange rates. This exposure is the result of selling in multiple currencies and operating in foreign countries where the functional currency is the local currency. Further, our overseas subsidiaries' results are also impacted by exchange rates affecting the carrying value of U.S. dollar denominated intercompany loans with us. Because we conduct business in currencies other than U.S. dollars, but report our results of operations in U.S. dollars, fluctuations in the exchange rates of these foreign currencies, including any fluctuations caused by uncertainties relating to Brexit, may hinder our ability to predict our future results and earnings and materially impact our business, financial condition and operating results. Due to our legal structure, any fluctuations in the exchange rates of the British pound may be particularly impactful. We have not previously engaged in foreign currency hedging. If we decide to hedge our foreign currency exposure, we may not be able to completely eliminate the impact of fluctuations in the exchange rates.
We have in the past acquired, and may in the future acquire, other companies or technologies, which could divert our management's attention, result in additional dilution to our stockholders or otherwise disrupt our operations and harm our operating results.
We have in the past acquired, and may in the future acquire, other companies or technologies. Most recently, in November 2018 we acquired Grovo Learning, Inc., a leading provider of Microlearning® content, and in September 2018, we acquired Workpop Inc., a web and mobile solution for candidates and hiring managers in service-based industries. In the future, we may seek to acquire or invest in other businesses, products or technologies that we believe could complement or expand our existing platform, enhance our technical capabilities or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management, result in additional dilution, and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are ultimately consummated.
We have limited experience in acquiring other businesses. We may not be able to successfully integrate the personnel, operations and technologies of any businesses that we have acquired or may acquire in the future or effectively manage the combined business following the acquisition. We may also not achieve the anticipated benefits from other acquired businesses due to a number of factors, including:

- unanticipated costs or liabilities associated with the acquisition;
- incurrence of acquisition-related costs;
- diversion of management's attention from other business concerns;
- harm to our existing relationships with partners, distributors and clients, including as a result of competing in the markets in which such parties operate;
- the potential loss of key employees and clients;
- exposure to claims and disputes by third parties, including intellectual property claims and disputes;
- the use of resources that are needed in other parts of our business; and
- the use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill, which must be assessed for impairment at least annually, or to intangible assets, which are assessed for impairment upon certain triggering events. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could harm our operating results.
Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. For example, in our acquisition of Sonar Limited, we issued an aggregate of 46,694 shares of our common stock. In addition, if an acquired business fails to meet our expectations, our operating results, business and financial condition may suffer.
As a public company, we are obligated to maintain proper and effective internal control over financial reporting. If our internal control over financial reporting is ineffective, our financial reporting may not be accurate, complete and timely and our auditors may be unable to attest to its effectiveness when required, thus adversely affecting investor confidence in our company.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. Our auditors also need to audit the effectiveness of our internal control over financial reporting. These assessments need to include disclosure of any material weaknesses in our internal control over financial reporting.

We have incurred and continue to incur significant costs assessing our system of internal control over financial reporting and processing documentation necessary to perform the evaluation needed to comply with Section 404. We may discover, and may not be able to remediate, future significant deficiencies or material weaknesses, or we may be unable to complete our evaluation, testing or any required remediation in a timely fashion. Further, to the extent we acquire other businesses, the acquired company may not have a sufficiently robust system of internal controls and we may discover deficiencies. Failure of our internal control over financial reporting to be effective could cause our financial reporting to be inaccurate, incomplete or delayed. Moreover, even if there is no inaccuracy, incompletion or delay of reporting results, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert, and our auditors will be unable to affirm, that our internal control is effective, in which case investors may lose confidence in the accuracy and completeness of our financial reports, which could have a material adverse effect on the price of our common stock.

Certain of our operating results and financial metrics are difficult to predict as a result of seasonality.

We have historically experienced seasonality in terms of when we enter into client agreements for our products. We sign a significantly higher percentage of agreements with new clients, and renewal agreements with existing clients, in the fourth quarter of each year and a significant portion of these agreements are signed during the last month, and with respect to each quarter, often the last two weeks of the quarter. This seasonality is reflected to a much lesser extent, and sometimes is not immediately apparent, in our revenue, due to the fact that we generally recognize subscription revenue over the term of the client agreement, which is generally three years. We expect this seasonality to continue, which may cause fluctuations in certain of our operating results and financial metrics, and thus difficulties in predictability.

We rely on third-party computer hardware and software that may be difficult to replace or could cause errors or failures of our service.

In addition to the software we develop, we rely on computer hardware, purchased or leased, and software licensed from third parties in order to deliver our platform. This hardware and software may not continue to be available on commercially reasonable terms, if at all. Any loss of the right to use any of this hardware or software could result in delays in our ability to provide our platform until equivalent technology is either developed by us or, if available, identified, obtained and integrated. In addition, errors or defects in third-party hardware or software used in our platform could result in errors or a failure of our products, which could harm our business.

If we fail to manage our SaaS hosting network infrastructure capacity, our existing clients may experience service outages and our new clients may experience delays in the deployment of our human capital management platform.

We have experienced significant growth in the number of users, transactions and data that our hosting infrastructure supports. We seek to maintain sufficient excess capacity in our SaaS hosting network infrastructure to meet the needs of all of our clients. We also seek to maintain excess capacity to facilitate the rapid provision of new client deployments and the expansion of existing client deployments. However, the provision of new hosting infrastructure requires significant lead time. If we do not accurately predict our infrastructure capacity requirements, our existing clients may experience service outages that may subject us to financial penalties, financial liabilities and client losses. If our hosting infrastructure capacity fails to keep pace with increased sales, clients may experience delays as we seek to obtain additional capacity, which could harm our reputation and adversely affect our revenue growth.

Restructuring activities could adversely affect our ability to execute our business strategy.

In December 2017, we implemented a restructuring plan to reduce the headcount of our global service delivery team, as well as the headcount of some of our sales teams, representing a workforce reduction of approximately six percent. In connection with this action, we incurred approximately $8.9 million of expenditures in the year ended December 31, 2018 and $10.5 million of expenditures since the plan was announced in December 2017 through December 31, 2018. This restructuring and any future restructurings, should it become necessary for us to continue to restructure our business due to worldwide market conditions or other factors that reduce the demand for our products and services, could adversely affect our ability to execute our business strategy.

Failure to effectively manage client deployments by our third-party service providers could adversely impact our business.

In cases where our third-party service providers are engaged either by us or by a client directly to deploy a product for a client, our third-party service providers need to have a substantial understanding of such client's business so that they can configure the product in a manner that complements its existing business processes and integrates the product into its existing systems. It may be difficult for us to manage the timeliness of these deployments and the allocation of personnel and resources by our clients. Failure to successfully manage client deployments by us or our third-party service providers could harm our reputation and cause us to lose existing clients, face potential client disputes or limit the rate at which new clients purchase our products.

Forecasts of our business growth and profitability may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth, we cannot assure you our business will grow at similar rates, or at all.

Our forecasts are subject to significant uncertainty and are based on assumptions and estimates which may not prove to be accurate. These assumptions and estimates include the timing and value of agreements with our customers, variability in the service delivery periods for our customers, impact of foreign currency exchange rate fluctuations and expected growth in our market and related costs to support the growth of our business. Our assumptions and estimates related to our business growth and profitability, including the performance of our core business and emerging businesses and the demand for our products in the United States, Europe, Japan and other regions, may prove to be inaccurate. Even if the markets experience the forecasted growth, we may not grow our business at similar rates, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties.

Even if demand for human capital management products and services increases generally, there is no guarantee that demand for SaaS products like ours will increase to a corresponding degree.

The widespread adoption of our products depends not only on strong demand for human capital management products and services generally, but also for products and services delivered via a SaaS business model in particular. There are still a significant number of organizations that have adopted no human capital management functions at all, and it is unclear whether such organizations will ever adopt such functions and, if they do, whether they will desire a SaaS human capital management platform like ours. As a result, we cannot assure you that our SaaS human capital management platform will achieve and sustain the high level of market acceptance that is critical for the success of our business.

Integrated, comprehensive SaaS products such as ours represent a relatively recent approach to addressing organizations' human capital management challenges, and we may be forced to change the prices we charge for our products, or the pricing model upon which they are based, as the market for these types of products evolves.

Providing organizations with applications to address their human capital management challenges through integrated, comprehensive SaaS products is a developing market. The market for these products is therefore still evolving, and competitive dynamics may cause pricing levels, as well as pricing models generally, to change, as the market matures and as existing and new market participants introduce new types of products and different approaches to enable organizations to address their human capital management needs. As a result, we may be forced to reduce the prices we charge for our products or the pricing model on which they are based, and may be unable to renew existing client agreements or enter into new client agreements at the same prices and upon the same terms that we have historically, which could have a material adverse effect on our revenue, gross margin and other operating results.

We currently have a number of international offices and are expanding our international operations. Doing business internationally has unique risks with respect to operational execution and regulatory compliance.

We currently have international offices in several countries, and we may expand our international operations into other countries in the future. International operations involve a variety of risks that may decrease demand for, or restrict our ability to sell or provide, our products, including:

- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;
- differing labor regulations;
- regulations relating to data security and the unauthorized use of, or access to, commercial and personal information;
- potential penalties or other adverse consequences for violations of anti-corruption, anti-bribery and other similar laws and regulations, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act;
- greater difficulty in supporting and localizing our products;
- unrest and/or changes in a specific country's or region's social, political, legal or economic conditions;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, controls, policies, benefits and compliance programs;
- currency exchange rate fluctuations, including any fluctuations caused by uncertainties relating to Brexit;
- limited or unfavorable intellectual property protection; and
- restrictions on repatriation of earnings.

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We have less significant experience in marketing, selling and supporting our products and services abroad than domestically. Our less significant experience in operating our business internationally increases the risk that any potential future expansion efforts that we may undertake will not be successful. In addition, it may take us longer to build our presence in international markets. If we invest substantial time and resources to expand our international operations and are unable to do so successfully and in a timely manner, our business and operating results will suffer.
Our operations could be materially affected by changes in domestic and foreign economic, political or legal conditions. For example, in 2016 the UK held a referendum to determine whether the UK should leave the EU or remain as a member state, the outcome of which was in favor of leaving the EU. This event is commonly referred to as Brexit. We are monitoring developments related to Brexit, which could have significant implications for our business. Lack of clarity about future UK laws and regulations as the UK determines which EU rules and regulations to replace or replicate in the event of a withdrawal from the EU, including financial laws and regulations, tax and free trade agreements, intellectual property rights, supply chain logistics, environmental, health and safety laws and regulations, immigration laws and employment laws, could decrease foreign direct investment in the UK, increase costs, depress economic activity and restrict access to capital. The political and economic instability created by the UK's vote to leave the EU has also caused and may continue to cause significant volatility in global financial markets and the value of the British pound currency or other currencies, including the euro.
Such a withdrawal from the EU is unprecedented, and it is unclear how the UK's access to the European single market for goods, capital, services and labor within the EU, or single market, and the wider commercial, legal and regulatory environment, will impact our UK operations and customers. Our UK operations service customers in the UK as well as in other countries in the EU and the EEA, and these operations could be disrupted by Brexit, particularly if there is a change in the UK's relationship to the single market.
We may also face new regulatory costs and challenges that could have an adverse effect on our operations. Depending on the terms of the UK's withdrawal from the EU, the UK could lose the benefits of global trade agreements negotiated by the EU on behalf of its members, which may result in increased trade barriers that could make our doing business in the EU and the EEA more difficult. Even prior to any change to the UK's relationship with the EU, the announcement of Brexit has created economic uncertainty surrounding the terms of Brexit and its consequences could adversely impact customer confidence resulting in customers reducing their spending budgets on our solutions, which could adversely affect our business, revenue, financial condition, and results of operations.
Failure to comply with anti-bribery, anti-corruption and anti-money laundering laws could subject us to penalties and other adverse consequences.
We are subject to the Foreign Corrupt Practices Act (the "FCPA"), the U.K. Bribery Act and other anti-corruption, anti-bribery and anti-money laundering laws in various jurisdictions both domestic and abroad. We leverage third parties, including channel partners, to sell subscriptions to our platform and conduct our business abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, channel partners and agents, even if we do not explicitly authorize such activities. While we have policies and procedures to address compliance with such laws, we cannot assure you that all of our employees and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Any violation of the FCPA or other applicable anti-bribery, anti-corruption laws and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, operating results and prospects.
If we fail to develop our brand cost-effectively, our business may suffer.
We believe that developing and maintaining awareness of the Cornerstone OnDemand brand in a cost-effective manner is critical to achieving widespread acceptance of our existing and future products and is an important element in attracting new clients. 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 and on our ability to provide reliable and useful services at competitive prices. 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 incurred in building our brand. In addition, the Cornerstone OnDemand Foundation shares our company name and any negative perceptions of any kind about the Cornerstone OnDemand Foundation could adversely affect our brand and reputation. 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 enough new clients or retain our existing clients to the extent necessary to realize a sufficient return on our brand-building efforts, and our business could suffer.

Our sales to government entities are subject to a number of additional challenges and risks.
We sell to U.S. federal and state and foreign governmental agency customers, and we may increase sales to government entities in the future. For example, in June 2017, we entered into an agreement with the U.S. Postal Service that authorizes, but does not guarantee, the purchase by the U.S. Postal Service of our software and services to support their more than 600,000 employees. The additional risks and challenges associated with doing business with governmental entities include, but are not limited to, the following:

- Selling to governmental entities can be more competitive, expensive and time-consuming than selling to private entities, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale;
- Government certification requirements may change, or we may lose one or more government certifications, such as FedRAMP, and in doing so restrict our ability to sell into the government sector until we have attained revised certificates;
- Governmental entities may have significant leverage in negotiations, thereby enabling such entities to demand contract terms that differ from what we generally agree to in our standard agreements, including, for example, most favored nation clauses and terms allowing contract termination for convenience;
- Government demand and payment for our products may be influenced by public sector budgetary cycles and funding authorizations, with funding reductions or delays having an adverse impact on public sector demand for our products; and
- Government contracts are generally subject to audits and investigations, which we have limited experience with, potentially resulting in termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions or debarment from future government business.

To the extent that we become more reliant on contracts with government entities in the future, our exposure to such risks and challenges could increase, which, in turn, could adversely impact our business.
We may require additional capital to support business growth, and this capital may not be available on acceptable terms, if at all.
We intend to continue to make investments to support our business growth and may seek additional funds to respond to business challenges, including the need to develop new features or enhance our existing products, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in additional equity or debt financings to secure additional funds. If we raise additional funds through issuances of equity or debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing 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, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired.
Further, the indenture governing the convertible notes due 2021 includes a restrictive covenant that, subject to specified exceptions and parameters, limits our ability to incur additional debt. We may be unable to take advantage of strategic or business development opportunities as they arise, or we may not be able to react to market conditions, if we are restricted in our ability to raise debt financing, or we may be required to seek alternative means to generate cash, including by selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive, if available at all.
In addition, in connection with the sale of our convertible notes due 2021, we entered into an investment agreement with Silver Lake providing Silver Lake with the option to purchase all or a portion of any equity securities, or instruments convertible into or exchangeable for any equity securities, in any proposed offerings by us until the earlier of June 2019 or such time as Silver Lake no longer has a representative and no longer has rights to have a representative on our board of directors. Although Silver Lake’s option will not apply to equity securities issued in connection with acquisitions, underwritten public offerings, strategic partnerships or commercial arrangements, or

equity compensation plans, Silver Lake’s participation rights could impact our ability to raise additional capital.

Servicing our debt will require a significant amount of cash, which could adversely affect our business, financial condition and results of operations.
Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including our convertible notes due 2021, which represent an aggregate principal amount of $300.0 million, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to satisfy our obligations under the notes and any future indebtedness we may incur and to make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance the notes or future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on the notes or future indebtedness.
Further, with certain exceptions, upon a change of control, the holders of our convertible notes due 2021 may require that we repurchase all or part of such notes at a purchase price equal to the principal amount plus the total sum of all remaining scheduled interest payments through the remainder of the term of the notes. In such event, we may not have enough cash available or be able to obtain financing to repurchase the notes, and our ability to repurchase notes may be limited by law, regulatory authority or agreements governing our other indebtedness.
Because of how we recognize revenue, a significant downturn in our business may not be immediately reflected in our operating results.
Generally, we recognize revenue from subscription agreements monthly over the terms of these agreements, which is typically three years for our human capital management platform. As a result, a significant portion of the revenue we report in each quarter is generated from client agreements entered into during previous periods. Consequently, a decline in new subscriptions in any one quarter may not significantly impact our revenue and financial performance in that quarter, but will negatively affect our revenue, or rate of revenue growth and financial performance in future quarters.
In addition, if subscription agreements expire and are not renewed in the same quarter, our revenue and financial performance in that quarter and subsequent quarters will be negatively affected. However, the revenue impact may not be immediately reflected in our operating results to the extent there is an offsetting increase in revenue from services contracts performed in that same quarter.
Finally, we may be unable to adjust our fixed costs in response to reduced revenue. Accordingly, the effect of significant declines in sales and market acceptance of our products may not be reflected in our short-term operating results.
Because we generally recognize subscription revenue from our clients over the terms of their agreements but incur most costs associated with generating such agreements upfront, rapid growth in our client base may put downward pressure on our operating margin in the short term.
The expenses associated with generating client agreements are generally incurred up front but the resulting subscription revenue is generally recognized over the life of the agreements; therefore, increased growth in the number of our clients will result in our recognition of more costs than revenue during the early periods covered by such agreements, even in cases where the agreements are expected to be profitable for us over their full terms.
We have a history of losses, and we cannot be certain that we will achieve or sustain profitability.
We have a history of incurring losses. We experienced net losses of $33.8 million, $61.3 million and $66.8 million in 2018, 2017 and 2016, respectively. At December 31, 2018, our accumulated deficit was $530.0 million and total stockholders’ equity was $55.9 million. Although our operating losses have decreased in each of the last three years, and in the second half of 2018 we reported operating income, it is possible that we may continue to incur operating losses in the future as a result of expenses associated with the continued development and expansion of our business. Our expenses include among others, sales and marketing, research and development, consulting and support services and other costs relating to the development, marketing and sale and service of our products that may not generate revenue until later periods, if at all. Any failure to increase revenue or manage our cost structure as we implement initiatives to grow our business could prevent us from sustaining profitability. In addition, our ability to achieve

sustained profitability is subject to a number of the risks and uncertainties discussed below, many of which are beyond our control. We cannot be certain that we will be able to sustain profitability on a quarterly or annual basis.