

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from      to

Commission File Number: 001-36456

**ZENDESK, INC.**

(Exact Name of Registrant as Specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

26-4411091  
(I.R.S. Employer  
Identification No.)

989 Market Street  
(Address of principal executive offices)

San Francisco

California

94103  
(Zip Code)

Registrant's telephone number, including area code: (415) 418-7506

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

<u>Title of each class</u>	<u>Trading symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	ZEN	New York Stock Exchange

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐

No ☒

As of July 28, 2022, there were 123,434,222 shares of the registrant's common stock outstanding.

---

**ZENDESK, INC.**  
**TABLE OF CONTENTS**

**PART I — FINANCIAL INFORMATION**

Item 1	<a href="#">Financial Statements (unaudited):</a>	<a href="#">5</a>
	<a href="#">Condensed Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021</a>	<a href="#">5</a>
	<a href="#">Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2022 and 2021</a>	<a href="#">6</a>
	<a href="#">Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2022 and 2021</a>	<a href="#">7</a>
	<a href="#">Condensed Consolidated Statements of Stockholders' Equity for the Three and Six Months Ended June 30, 2022 and 2021</a>	<a href="#">8</a>
	<a href="#">Condensed Consolidated Statements of Cash Flows for the Three and Six Months Ended June 30, 2022 and 2021</a>	<a href="#">9</a>
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	<a href="#">10</a>
Item 2	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">28</a>
Item 3	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">38</a>
Item 4	<a href="#">Controls and Procedures</a>	<a href="#">39</a>

**PART II — OTHER INFORMATION**

Item 1	<a href="#">Legal Proceedings</a>	<a href="#">40</a>
Item 1A	<a href="#">Risk Factors</a>	<a href="#">40</a>
Item 6	<a href="#">Exhibits</a>	<a href="#">70</a>
	<a href="#">SIGNATURES</a>	<a href="#">72</a>

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “might,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions.

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

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

**PART I — FINANCIAL INFORMATION**
**Item 1. Financial Statements**

**ZENDESK, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands)

	June 30, 2022 (Unaudited)	December 31, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 567,980	\$ 476,103
Marketable securities	590,263	539,780
Accounts receivable, net of allowance for credit losses of \$5,742 and \$6,190 as of June 30, 2022 and December 31, 2021, respectively	258,127	273,898
Deferred costs	82,497	72,042
Prepaid expenses and other current assets	71,514	56,809
Total current assets	1,570,381	1,418,632
Marketable securities, noncurrent	473,949	559,652
Property and equipment, net	90,955	97,815
Deferred costs, noncurrent	78,266	72,553
Lease right-of-use assets	48,259	69,936
Goodwill and intangible assets, net	193,610	197,098
Other assets	36,689	35,593
<b>Total assets</b>	<b>\$ 2,492,109</b>	<b>\$ 2,451,279</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 70,682	\$ 49,213
Accrued liabilities	56,562	50,075
Accrued compensation and related benefits	105,297	138,127
Deferred revenue	563,873	512,933
Lease liabilities	21,977	21,253
Current portion of convertible senior notes, net	148,687	139,738
Total current liabilities	967,078	911,339
Convertible senior notes, net	1,137,424	979,350
Deferred revenue, noncurrent	6,326	4,277
Lease liabilities, noncurrent	51,727	63,212
Other liabilities	2,733	3,883
Total liabilities	2,165,288	1,962,061
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock	—	—
Common stock	1,232	1,215
Additional paid-in capital	1,568,922	1,637,157
Accumulated other comprehensive loss	(22,176)	(8,911)
Accumulated deficit	(1,221,157)	(1,140,243)
Total stockholders' equity	326,821	489,218
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,492,109</b>	<b>\$ 2,451,279</b>

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 407,208	\$ 318,216	\$ 795,535	\$ 616,264
Cost of revenue (1)	82,790	66,743	158,468	127,637
Gross profit	324,418	251,473	637,067	488,627
Operating expenses (1):				
Research and development	110,539	82,826	218,616	156,609
Sales and marketing	209,160	165,250	410,820	322,768
General and administrative	97,210	45,818	160,748	88,951
Total operating expenses	416,909	293,894	790,184	568,328
Operating loss	(92,491)	(42,421)	(153,117)	(79,701)
Other income (expense), net:				
Interest expense	(3,121)	(14,591)	(6,242)	(29,006)
Interest and other income (expense), net	2,094	960	2,932	6,044
Total other income (expense), net	(1,027)	(13,631)	(3,310)	(22,962)
Loss before provision for income taxes	(93,518)	(56,052)	(156,427)	(102,663)
Provision for income taxes	1,564	2,355	5,601	4,709
Net loss	\$ (95,082)	\$ (58,407)	\$ (162,028)	\$ (107,372)
Net loss per share, basic and diluted	\$ (0.77)	\$ (0.49)	\$ (1.32)	\$ (0.91)
Weighted-average shares used to compute net loss per share, basic and diluted	122,841	119,050	122,404	118,484

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of revenue	\$ 6,982	\$ 5,218	\$ 13,159	\$ 9,704
Research and development	20,482	17,024	39,769	32,697
Sales and marketing	31,120	24,501	57,920	47,733
General and administrative	14,775	9,951	26,449	18,934

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net loss	\$ (95,082)	\$ (58,407)	\$ (162,028)	\$ (107,372)
Other comprehensive loss:				
Net unrealized loss on available-for-sale investments	(5,140)	(826)	(17,045)	(2,801)
Net unrealized (loss) gain on derivative instruments	(3,499)	(61)	3,828	(5,618)
Other comprehensive loss	(8,639)	(887)	(13,217)	(8,419)
Comprehensive loss	<u>\$ (103,721)</u>	<u>\$ (59,294)</u>	<u>\$ (175,245)</u>	<u>\$ (115,791)</u>

See Notes to Condensed Consolidated Financial Statements.

**ZENDESK, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands)  
(Unaudited)

	Three Months Ended June 30, 2022						Three Months Ended June 30, 2021					
	Common Stock						Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
<b>Balances at beginning of period</b>	122,369	\$ 1,223	\$ 1,465,489	\$ (13,537)	\$ (1,126,075)	\$ 327,100	118,358	\$ 1,183	\$ 1,399,014	\$ (4,329)	\$ (965,625)	\$ 430,243
Issuance of common stock upon exercise of stock options	43	1	1,415	—	—	1,416	400	4	11,200	—	—	11,204
Issuance of common stock for settlement of RSUs and PRSUs	522	6	(2,267)	—	—	(2,261)	651	6	(3,510)	—	—	(3,504)
Issuance of common stock in connection with employee stock purchase plan	344	3	29,834	—	—	29,837	380	4	27,651	—	—	27,655
Share-based compensation	—	—	74,451	—	—	74,451	—	—	57,762	—	—	57,762
Other comprehensive loss	—	—	—	(8,639)	—	(8,639)	—	—	—	(887)	—	(887)
Net loss	—	—	—	—	(95,082)	(95,082)	—	—	—	—	(58,407)	(58,407)
Other	—	—	—	—	—	—	—	—	—	—	61	61
<b>Balances at end of period</b>	123,278	\$ 1,232	\$ 1,568,922	\$ (22,176)	\$ (1,221,157)	\$ 326,821	119,789	\$ 1,197	\$ 1,492,117	\$ (5,216)	\$ (1,023,971)	\$ 464,127

	Six Months Ended June 30, 2022						Six Months Ended June 30, 2021					
	Common Stock						Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
<b>Balances at beginning of period</b>	121,598	\$ 1,215	\$ 1,657,157	\$ (8,911)	\$ (1,140,243)	\$ 489,218	117,489	\$ 1,174	\$ 1,344,337	\$ 3,203	\$ (916,883)	\$ 431,831
Cumulative effect adjustment resulting from the adoption of ASU 2020-06 (Note 1)	—	—	(245,690)	—	81,114	(164,576)	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options	378	4	12,228	—	—	12,232	608	6	15,129	—	—	15,135
Issuance of common stock for settlement of RSUs and PRSUs	958	10	(3,966)	—	—	(3,956)	1,312	13	(6,316)	—	—	(6,303)
Issuance of common stock in connection with employee stock purchase plan	344	3	29,834	—	—	29,837	380	4	27,651	—	—	27,655
Share-based compensation	—	—	139,359	—	—	139,359	—	—	111,316	—	—	111,316
Other comprehensive loss	—	—	—	(13,217)	—	(13,217)	—	—	—	(8,419)	—	(8,419)
Net loss	—	—	—	—	(162,028)	(162,028)	—	—	—	—	(107,372)	(107,372)
Other	—	—	—	(48)	—	(48)	—	—	—	—	284	284
<b>Balances at end of period</b>	123,278	\$ 1,232	\$ 1,568,922	\$ (22,176)	\$ (1,221,157)	\$ 326,821	119,789	\$ 1,197	\$ 1,492,117	\$ (5,216)	\$ (1,023,971)	\$ 464,127

See Notes to Condensed Consolidated Financial Statements.



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

	Six Months Ended June 30,	
	2022	2021
<b>Cash flows from operating activities</b>		
Net loss	\$ (162,028)	\$ (107,372)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation and amortization	19,657	18,623
Share-based compensation	137,297	109,068
Amortization of deferred costs	42,044	30,942
Amortization of debt discount and issuance costs	2,446	25,219
Real estate impairments	24,908	—
Allowance for credit losses on accounts receivable	3,977	4,495
Other, net	4,565	123
Changes in operating assets and liabilities:		
Accounts receivable	8,680	(11,498)
Prepaid expenses and other current assets	(8,998)	(1,739)
Deferred costs	(56,963)	(53,251)
Lease right-of-use assets	8,588	8,818
Other assets and liabilities	(979)	(1,850)
Accounts payable	22,156	5,377
Accrued liabilities	1,327	(2,561)
Accrued compensation and related benefits	(28,905)	(5,961)
Deferred revenue	52,183	59,139
Lease liabilities	(9,718)	(17,099)
<b>Net cash provided by operating activities</b>	<b>60,237</b>	<b>60,473</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(12,850)	(5,957)
Internal-use software development costs	(5,896)	(7,538)
Purchases of marketable securities	(364,788)	(504,850)
Proceeds from maturities of marketable securities	265,659	380,608
Proceeds from sales of marketable securities	114,610	57,061
Purchases of strategic investments	(1,000)	—
<b>Net cash used in investing activities</b>	<b>(4,265)</b>	<b>(80,676)</b>
<b>Cash flows from financing activities</b>		
Proceeds from exercises of employee stock options	12,231	15,135
Proceeds from employee stock purchase plan	28,035	26,778
Taxes paid related to net share settlement of share-based awards	(3,957)	(6,302)
<b>Net cash provided by financing activities</b>	<b>36,309</b>	<b>35,611</b>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	63	(19)
Net increase in cash, cash equivalents and restricted cash	92,344	15,389
Cash, cash equivalents and restricted cash at beginning of period	477,350	407,859
<b>Cash, cash equivalents and restricted cash at end of period</b>	<b>\$ 569,694</b>	<b>\$ 423,248</b>

<b>Reconciliation of cash, cash equivalents and restricted cash to condensed consolidated balance sheets</b>		
Cash and cash equivalents	\$ 567,980	\$ 422,810
Restricted cash included in prepaid expenses and other current assets	1,714	433
Restricted cash included in other assets	—	5
<b>Total cash, cash equivalents and restricted cash</b>	<b>\$ 569,694</b>	<b>\$ 423,248</b>
<b>Supplemental cash flow data</b>		
Cash paid for interest	\$ 3,780	\$ 3,780
Cash paid for taxes	\$ 6,125	\$ 5,496
<b>Non-cash investing and financing activities</b>		
Balance of property and equipment in accounts payable and accrued expenses	\$ 3,098	\$ 1,315
Share-based compensation capitalized in internal-use software development costs	\$ 815	\$ 916
Share-based compensation capitalized in deferred costs	\$ 1,247	\$ 1,329
Property and equipment acquired through tenant improvement allowances	\$ 1,208	\$ —

See Notes to Condensed Consolidated Financial Statements.

**ZENDESK, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Overview and Basis of Presentation**

***Company and Background***

Zendesk was founded in Denmark in 2007 and reincorporated in Delaware in April 2009.

Founded in 2007, Zendesk is a service-first customer relationship management company, built to give organizations of all sizes, in every industry, the ability to deliver a transparent, responsive and empowering customer experience. With solutions designed to address an increasingly broad set of customer interactions, Zendesk allows organizations to deliver omnichannel customer service and customize and build apps across the customer journey. Zendesk has evolved its offerings over time to product and platform solutions that work together to help organizations understand the broader customer journey, improve communications across all channels and engage where and when it's needed most.

References to Zendesk, the "Company," "our," or "we" refer to Zendesk, Inc. and its subsidiaries on a consolidated basis.

***Proposed Merger***

On June 24, 2022, we entered into an Agreement and Plan of Merger (the "Merger Agreement") to be acquired by an investor group led by Permira Advisers LLC ("Permira") and Hellman & Friedman Advisors LLC ("H&F") in an all-cash transaction valued at approximately \$10.2 billion. Under the terms of the Merger Agreement, our stockholders will receive \$77.50 per share. The transaction is expected to close in the fourth quarter of 2022, and is subject to customary closing conditions, including approval by our stockholders. Upon closing of the transaction, Zendesk will operate as a privately-held company.

See Note 15 of the Notes to our Condensed Consolidated Financial Statements for further details.

***Basis of Presentation***

These unaudited condensed consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles, or GAAP, and applicable rules and regulations of the Securities and Exchange Commission, or SEC, regarding interim financial reporting. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K, for the year ended December 31, 2021, filed with the SEC on February 15, 2022. There have been no changes to our significant accounting policies described in the Annual Report on Form 10-K that have had a material impact on our condensed consolidated financial statements and related notes, except for the methodology to value market-based stock awards described in Note 10 of the Notes to our Condensed Consolidated Financial Statements and the accounting for convertible debt instruments described below.

The consolidated balance sheet as of December 31, 2021 included herein was derived from the audited financial statements as of that date. The unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly our financial position, results of operations, comprehensive loss, stockholders' equity, and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full year ending December 31, 2022.

***Use of Estimates***

The preparation of our consolidated financial statements in conformity with GAAP requires management to make certain estimates, judgments, and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reported periods.

Significant items subject to such estimates and assumptions include:

- the estimate of variable consideration related to revenue recognition;
- the estimate of credit losses for accounts receivable and marketable securities;
- the fair value and useful lives of acquired intangible assets;
- the capitalization and useful life of capitalized costs to obtain customer contracts;
- the valuation of strategic investments;
- the fair value and useful lives of property and equipment;
- the capitalization and useful lives of internal-use software;
- the lease term and incremental borrowing rate for lease liabilities;
- the fair value of our convertible senior notes;
- the fair value of asset retirement obligations;
- the fair value and expense recognition for certain share-based awards;
- the preparation of financial forecasts used in currency hedging;
- the recognition and measurement of legal contingencies; and
- the recognition of tax benefits and forecasts used to determine our effective tax rate.

As of the date of issuance of the financial statements, we are not aware of any material specific events or circumstances that would require us to update our estimates, judgments, or to revise the carrying values of our assets or liabilities. These estimates may change, as new events occur and additional information is obtained, and are recognized in the consolidated financial statements as soon as they become known. Actual results could differ from those estimates and any such differences may be material to our financial statements.

#### ***Concentrations of Risk***

As of June 30, 2022 and December 31, 2021, no customers represented 10% or greater of our total accounts receivable balance. There were no customers that individually exceeded 10% of our revenue during the three and six months ended June 30, 2022 and 2021.

#### ***Recently Adopted Accounting Pronouncements***

In August 2020, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2020-06 (“ASU 2020-06”), regarding Accounting Standards Codification, or ASC, Topic 470 “*Debt*” and ASC Topic 815 “*Derivatives and Hedging*,” which reduces the number of accounting models for convertible instruments, including amending the calculation of diluted earnings per share and the balance sheet presentation of those instruments, as well as the resulting recognition of interest expense, among other changes. We adopted this standard as of January 1, 2022 using the modified retrospective method.

Adoption under the modified retrospective method impacted the 2023 Notes and 2025 Notes (as each is defined below) outstanding as of January 1, 2022, and resulted in the re-combination of the liability and equity components of each instrument into a single liability instrument measured at amortized cost. As a result, at transition the Company recorded a \$246 million decrease to additional paid-in-capital, net of income tax effects, to remove the equity component separately recorded for the conversion features associated with the Notes (as defined below), a \$165 million increase to the total carrying value of the Notes, to reflect the full principal amount of the Notes outstanding net of issuance costs, and a \$81 million cumulative effect decrease to the beginning balance of accumulated deficit, net of income tax effects. Interest expense recognized in future periods will be reduced as a result of accounting for each instrument as a single liability measured at amortized cost. In addition, ASU 2020-06 also requires the use of the if-converted method in calculating diluted earnings per share for convertible instruments. Since the Company had a net loss for the three and six months ended June 30, 2022, the convertible senior notes were determined to be anti-dilutive and therefore had no impact to basic or diluted net loss per share for the periods as a result of adopting ASU 2020-06.

#### **Note 2. Business Combinations**

*Cleverly, Lda.*

In the third quarter of 2021, we completed the acquisition of Cleverly, Lda., or Cleverly, resulting in increases of \$7 million and \$1 million to goodwill and developed technology, respectively.

From the date of the acquisition, the financial results of Cleverly have been included in and are immaterial to our condensed consolidated financial statements. Pro forma revenue and results of operations have not been presented because the historical results are not material to our condensed consolidated financial statements in any period presented.

### Note 3. Financial Instruments

#### Investments

The following tables present information about our financial assets measured at fair value on a recurring basis based on the three-tier fair value hierarchy (in thousands):

Description	Fair Value Measurement at June 30, 2022		
	Level 1	Level 2	Total
U.S. Treasury securities	\$ —	\$ 473,780	\$ 473,780
Corporate bonds	—	407,259	407,259
Money market funds	296,670	—	296,670
Asset-backed securities	—	92,019	92,019
Agency securities	—	52,012	52,012
Commercial paper	—	49,286	49,286
Certificates of deposit and time deposits	—	10,841	10,841
Total	\$ 296,670	\$ 1,085,197	\$ 1,381,867
Included in cash and cash equivalents			\$ 317,655
Included in marketable securities			\$ 1,064,212

  

Description	Fair Value Measurement at December 31, 2021		
	Level 1	Level 2	Total
U.S. Treasury securities	\$ —	\$ 480,726	\$ 480,726
Corporate bonds	—	430,018	430,018
Money market funds	234,123	—	234,123
Asset-backed securities	—	93,620	93,620
Agency securities	—	50,057	50,057
Commercial paper	—	48,950	48,950
Certificates of deposit and time deposits	—	1,488	1,488
Total	\$ 234,123	\$ 1,104,859	\$ 1,338,982
Included in cash and cash equivalents			\$ 239,550
Included in marketable securities			\$ 1,099,432

As of June 30, 2022 and December 31, 2021, there were no securities within Level 3 of the fair value hierarchy. There were no transfers between fair value measurement levels during the three and six months ended June 30, 2022 or 2021.

As of June 30, 2022, gross unrealized gains and gross unrealized losses for marketable securities were not material and \$19 million, respectively. The aggregate amortized cost basis for cash equivalents and marketable securities was \$1,401 million and excludes accrued interest of \$3 million. The aggregate fair value of securities with unrealized losses was \$989 million.

As of December 31, 2021, gross unrealized gains and gross unrealized losses for marketable securities were \$1 million and \$3 million, respectively. The aggregate amortized cost basis for cash equivalents and marketable securities was \$1,341 million and excludes accrued interest of \$3 million. The aggregate fair value of securities with unrealized losses was \$795 million.

Unrealized losses for securities that have been in an unrealized loss position for more than 12 months as of June 30, 2022 and December 31, 2021 were \$1 million and not material, respectively. We have not recorded an allowance for credit losses, as we believe any such losses would be immaterial based on the high-grade credit rating for each of our marketable securities as of the end of each period. We intend to hold our marketable securities to maturity and it is unlikely that they would be sold before their cost bases are recovered.

The following table classifies our marketable securities by contractual maturity (in thousands):

	June 30, 2022	December 31, 2021
Due in one year or less	\$ 590,263	\$ 539,780
Due after one year and within five years	473,949	559,652
Total	<u>\$ 1,064,212</u>	<u>\$ 1,099,432</u>

As of June 30, 2022 and December 31, 2021, the balance of strategic investments without readily determinable fair values was \$17 million and \$16 million, respectively. There have been no adjustments to the carrying values of strategic investments resulting from impairments or observable price changes.

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

### Derivative Instruments and Hedging

Our foreign currency exposures typically arise from expenditures associated with foreign operations and sales in foreign currencies of our products. To mitigate the effect of foreign currency fluctuations on our future cash flows and earnings, we enter into foreign currency forward contracts with certain financial institutions and designate those contracts as cash flow hedges. Our foreign currency forward contracts generally have maturities of 15 months or less.

We include time value related to our cash flow hedges for effectiveness testing purposes and the entire change in the unrecognized value of our hedge contracts is recorded in accumulated other comprehensive income (loss), or AOCI. As of June 30, 2022, the balance of AOCI included an unrecognized net gain of \$1 million related to the changes in the fair value of foreign currency forward contracts designated as cash flow hedges. We expect to reclassify a net loss of \$1 million into earnings over the next 12 months associated with our cash flow hedges.

The following tables present information about our derivative instruments on our consolidated balance sheets (in thousands):

Derivative Instrument	June 30, 2022			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value (Level 2)	Balance Sheet Location	Fair Value (Level 2)
Foreign currency forward contracts	Other current assets	\$ 13,110	Accrued liabilities	\$ 15,944
Total		<u>\$ 13,110</u>		<u>\$ 15,944</u>

  

Derivative Instrument	December 31, 2021			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value (Level 2)	Balance Sheet Location	Fair Value (Level 2)
Foreign currency forward contracts	Other current assets	\$ 6,439	Accrued liabilities	\$ 9,422
Total		<u>\$ 6,439</u>		<u>\$ 9,422</u>

Our foreign currency forward contracts had a total notional value of \$537 million and \$488 million as of June 30, 2022 and December 31, 2021, respectively. We have a master netting arrangement with each of our counterparties, which permit net settlement of multiple, separate derivative contracts with a single payment. We do not have collateral requirements with any of our counterparties. GAAP permits companies to present the fair value of derivative instruments on a net basis according to master netting arrangements. We have elected to present our derivative instruments on a gross basis in our consolidated

financial statements. We do not enter into any derivative contracts for trading or speculative purposes. All derivatives have been designated as hedging instruments.

The following table presents information about our foreign currency forward contracts on our consolidated statements of operations for the three and six months ended June 30, 2022 and 2021 (in thousands):

Classification	Gain (Loss) Reclassified from AOCI into Earnings			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 2,392	\$ (1,373)	\$ 3,186	\$ (2,081)
Cost of revenue	(901)	400	(1,406)	890
Research and development	(1,272)	488	(1,946)	1,003
Sales and marketing	(2,384)	1,044	(3,620)	2,073
General and administrative	(742)	290	(1,135)	707
Total	\$ (2,907)	\$ 849	\$ (4,921)	\$ 2,592

The loss recognized in AOCI related to foreign currency forward contracts was \$6 million for the three months ended June 30, 2022. The gain recognized in AOCI related to foreign currency forward contracts was \$1 million for the three months ended June 30, 2021. The loss recognized in AOCI related to foreign currency forward contracts was \$1 million and \$3 million for the six months ended June 30, 2022 and 2021, respectively.

The cash flow effects related to foreign currency forward contracts are included within operating activities on our consolidated statements of cash flows.

#### Convertible Senior Notes

As of June 30, 2022, the fair values of our 0.25% convertible senior notes due 2023 and our 0.625% convertible senior notes due 2025 were \$177 million and \$973 million, respectively. We estimate the fair value of our convertible senior notes based on their last traded prices or market observable inputs, resulting in a Level 2 classification in the fair value hierarchy. Based on the closing price of our common stock of \$74.07 on the last trading day of the quarter, the if-converted value of the 2025 convertible senior notes did not exceed the principal amount of \$1,150 million, and the if-converted value of the 2023 convertible senior notes exceeded the remaining principal amount by \$26 million as of June 30, 2022.

#### Note 4. Costs to Obtain Customer Contracts

The balance of deferred costs to obtain customer contracts was \$161 million and \$145 million as of June 30, 2022 and December 31, 2021, respectively. Amortization expense for deferred costs was \$22 million and \$16 million for the three months ended June 30, 2022 and 2021, respectively, and \$42 million and \$31 million for the six months ended June 30, 2022 and 2021, respectively. There were no impairment losses related to deferred costs for the periods presented.

#### Note 5. Property and Equipment

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

	June 30, 2022	December 31, 2021
Leasehold improvements	\$ 61,219	\$ 79,661
Capitalized internal-use software	61,013	58,135
Computer equipment and licensed software and patents	42,447	41,512
Furniture and fixtures	11,595	14,627
Construction in progress	19,458	20,927
Total	195,732	214,862
Less: accumulated depreciation and amortization	(104,777)	(117,047)
Property and equipment, net	\$ 90,955	\$ 97,815

Depreciation expense was \$5 million and \$6 million for the three months ended June 30, 2022 and 2021, respectively, and \$11 million and \$12 million for the six months ended June 30, 2022 and 2021, respectively.

Amortization expense of capitalized internal-use software was \$2 million for each of the three months ended June 30, 2022 and 2021 and \$4 million for each of the six months ended June 30, 2022 and 2021. The carrying values of capitalized internal-use software as of June 30, 2022 and December 31, 2021 were \$42 million and \$40 million, respectively, including \$19 million and \$15 million in construction in progress, respectively. These balances included \$9 million and \$7 million, respectively, of implementation costs incurred in hosting arrangements that are service contracts, all of which is included in construction in progress.

#### Note 6. Leases

The following table presents information about leases on our consolidated balance sheets (in thousands):

	June 30, 2022	December 31, 2021
<b>Assets</b>		
Lease right-of-use assets	\$ 48,259	\$ 69,936
<b>Liabilities</b>		
Lease liabilities	21,977	21,253
Lease liabilities, noncurrent	51,727	63,212

As of June 30, 2022, the weighted average remaining lease term was 5.5 years and the weighted average discount rate was 4.9%.

The following table presents information about leases on our consolidated statements of operations (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating lease expense	\$ 4,842	\$ 5,506	\$ 10,423	\$ 11,128
Short-term lease expense	83	128	203	256
Variable lease expense	1,079	1,244	2,511	2,462
Sublease income	(634)	(434)	(995)	(874)

The following table presents supplemental cash flow information about our leases (in thousands):

	Six Months Ended June 30,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities	\$ 11,240	\$ 13,903
Operating lease assets obtained in exchange for new lease liabilities	2,754	1,397

In April 2022, our board of directors approved a plan to cease use or sublease certain leased premises across our real estate portfolio. As a result, we recorded an aggregate impairment charge of \$25 million, which is the amount that the carrying value of the asset groups exceeded their estimated fair values. The asset groups primarily include lease right-of-use assets and leasehold improvements. The estimated fair values were based on the present value of the estimated cash flows that could be generated from subleasing each property for the remaining lease term, if applicable. The impairment charge was recorded in general and administrative expenses on our consolidated statement of operations. Further, in July 2022, our board of directors approved a plan to cease use of additional leased premises for which we expect to record an impairment charge in the third quarter of 2022 of approximately \$3 million.

#### Note 7. Goodwill and Acquired Intangible Assets

Acquired intangible assets subject to amortization consist of the following (in thousands):

As of June 30, 2022				
	Cost	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (In years)
Developed technology	\$ 28,000	\$ (16,089)	\$ 11,911	2.5
Customer relationships	14,300	(9,517)	4,783	3.0
	<u>\$ 42,300</u>	<u>\$ (25,606)</u>	<u>\$ 16,694</u>	

As of December 31, 2021				
	Cost	Accumulated Amortization	Net	Weighted Average Remaining Useful Life (In years)
Developed technology	\$ 28,000	\$ (13,734)	\$ 14,266	3.0
Customer relationships	14,300	(8,233)	6,067	3.2
	<u>\$ 42,300</u>	<u>\$ (21,967)</u>	<u>\$ 20,333</u>	

Amortization expense of acquired intangible assets was \$2 million for each of the three months ended June 30, 2022 and 2021, and \$4 million for each of the six months ended June 30, 2022 and 2021.

Estimated future amortization expense as of June 30, 2022 is as follows (in thousands):

Remainder of 2022	\$ 3,658
2023	6,579
2024	4,837
2025	972
2026	488
Thereafter	160
	<u>\$ 16,694</u>

As of June 30, 2022 and December 31, 2021, the carrying amount of goodwill was \$177 million. There was no material change to the carrying amount of goodwill for the six months ended June 30, 2022.

#### Note 8. Convertible Senior Notes

##### 2025 Convertible Senior Notes

In June 2020, we issued \$1,150 million aggregate principal amount of 0.625% convertible senior notes due June 15, 2025 in a private offering (the “2025 Notes”). The 2025 Notes are senior unsecured obligations and bear interest at a fixed rate of 0.625% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, commencing on December 15, 2020. The total net proceeds from the offering, after deducting initial purchase discounts and estimated debt issuance costs, were approximately \$1,129 million.

Each \$1,000 principal amount of the 2025 Notes will initially be convertible into 9.1944 shares of our common stock, which is equivalent to an initial conversion price of approximately \$108.76 per share, subject to adjustment upon the occurrence of specified events.

The 2025 Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding March 15, 2025, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on September 30, 2020 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater



than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which, for each trading day of that period, the trading price per \$1,000 principal amount of 2025 Notes for such trading day was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; (3) if we call any or all of the 2025 Notes for redemption, at any time prior to the close of business on the second business day immediately prior to the redemption date as discussed further below, but only with respect to the 2025 Notes called (or deemed called) for redemption; or (4) upon the occurrence of specified corporate events (as set forth in the indenture).

On or after March 15, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their 2025 Notes, in minimum denominations of \$1,000 or an integral multiple in excess thereof, at the option of the holders regardless of the foregoing circumstances. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election.

If certain specified fundamental changes occur (as set forth in the indenture) prior to the maturity date, holders of the 2025 Notes may require us to repurchase for cash all or any portion of their notes at a repurchase price equal to 100% of the principal amount of the 2025 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, if specific corporate events occur prior to the applicable maturity date or if we deliver a notice of redemption, we will increase the conversion rate for a holder who elects to convert their notes in connection with such a corporate event or converts its notes called (or deemed called) for redemption in connection with such notice of redemption in certain circumstances.

During the three months ended June 30, 2022, the conditions allowing holders of the 2025 Notes to convert were not met. As the criteria for conversion were not met, the 2025 Notes are classified as a long-term liability as of June 30, 2022.

We may not redeem the 2025 Notes prior to June 20, 2023. We may redeem for cash all or any portion of the 2025 Notes, at our option, on or after June 20, 2023 and on or prior to the 41st scheduled trading day immediately preceding the maturity date, if the last reported sale price of our common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which we provide notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption, at a redemption price equal to 100% of the principal amount of the 2025 Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 2025 Notes.

As described in Note 1, we adopted ASU 2020-06 effective January 1, 2022 on a modified retrospective basis, under which prior-period information was not retrospectively adjusted.

Prior to the adoption of ASU 2020-06, in accounting for the transaction, the 2025 Notes were separated into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The fair value of the liability component was estimated by calculating the present value of expected cash flows using an interest rate that reflects our incremental borrowing rate, with an estimated adjustment for our credit standing on nonconvertible debt with similar maturity. The carrying amount of the equity component representing the conversion option was \$220 million and was determined by deducting the fair value of the liability component from the par value of the 2025 Notes. The equity component was recorded in additional paid-in capital upon issuance. The excess of the principal amount of the liability component over its carrying amount was amortized to interest expense over the contractual term of the 2025 Notes at an effective interest rate of 5.00%.

Additionally, in accounting for the debt issuance costs of \$21 million related to the 2025 Notes, we allocated the total amount incurred to the liability and equity components of the 2025 Notes based on their relative values. Issuance costs attributable to the liability component were \$17 million and were amortized to interest expense using the effective interest method over the contractual term of the 2025 Notes. Issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital.

Upon adoption of ASU 2020-06 on January 1, 2022, we recombined the liability and equity components of the 2025 Notes, assuming that the instrument was accounted for as a single liability from inception to the date of adoption. We similarly recombined the liability and equity components of the issuance costs. The issuance costs are amortized to interest expense using the effective interest method over the contractual term of the 2025 Notes at an effective interest rate of 1.00%.

The net carrying amount of the liability component of the 2025 Notes is as follows (in thousands):

	June 30, 2022	December 31, 2021
Principal	\$ 1,150,000	\$ 1,150,000
Unamortized debt discount	—	(157,983)
Unamortized issuance costs	(12,576)	(12,667)
Net carrying amount	<u>\$ 1,137,424</u>	<u>\$ 979,350</u>

The net carrying amount of the equity component of the 2025 Notes is as follows (in thousands):

	June 30, 2022	December 31, 2021
Debt discount for conversion option	\$ —	\$ 220,061
Issuance costs	—	(4,035)
Net carrying amount	<u>\$ —</u>	<u>\$ 216,026</u>

The interest expense related to the 2025 Notes is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Contractual interest expense	\$ 1,797	\$ 1,797	\$ 3,594	\$ 3,594
Amortization of debt discount	—	10,155	—	20,184
Amortization of issuance costs	1,046	715	2,089	1,412
Total interest expense	<u>\$ 2,843</u>	<u>\$ 12,667</u>	<u>\$ 5,683</u>	<u>\$ 25,190</u>

Prior to the adoption of ASU 2020-06, the difference between the book and tax treatment of the debt discount and debt issuance costs of the 2025 Notes resulted in a difference between the carrying amount and tax basis of the 2025 Notes. This taxable temporary difference resulted in the recognition of a \$51 million net deferred tax liability which was recorded as an adjustment to additional paid-in capital. The creation of the deferred tax liability represented a source of future taxable income which supported the realization of deferred tax assets. As we continued to maintain a full valuation allowance against these deferred tax assets, this additional source of income resulted in the release of a portion of the valuation allowance. Consistent with the adoption of ASU 2019-12 in the second quarter of 2020, the release of the valuation allowance of \$51 million was recorded as an adjustment to additional paid-in capital. As of January 1, 2022, the unamortized balance of this net deferred tax liability was \$36 million, which was derecognized upon adoption of ASU 2020-06. Both the reduction to the net deferred tax liability and the offsetting increase to our valuation allowance were recorded to additional paid-in capital.

#### 2025 Capped Calls

In connection with the pricing of the 2025 Notes, we entered into privately negotiated capped call transactions with certain counterparties (the “2025 Capped Calls”). The 2025 Capped Calls each have an initial strike price of approximately \$108.76 per share, subject to certain adjustments, which correspond to the initial conversion price of the 2025 Notes. The 2025 Capped Calls have initial cap prices of \$164.17 per share, subject to certain adjustments. The 2025 Capped Calls cover, subject to anti-dilution adjustments, approximately 10.6 million shares of our common stock. Conditions that cause adjustments to the initial strike price of the 2025 Capped Calls are similar to the conditions that result in corresponding adjustments for the 2025 Notes. The 2025 Capped Calls are generally intended to reduce or offset the potential dilution to our common stock upon any conversion of the 2025 Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. For accounting purposes, the 2025 Capped Calls are separate transactions, and not part of the terms of the 2025 Notes. As these transactions meet certain accounting criteria, the 2025 Capped Calls are recorded in stockholders’ equity and are not accounted for as derivatives. The cost of \$130 million incurred in connection with the 2025 Capped Calls was recorded as a reduction to additional paid-in capital.

#### 2023 Convertible Senior Notes

In March 2018, we issued \$575 million aggregate principal amount of 0.25% convertible senior notes due March 15, 2023 in a private offering (the “2023 Notes”). The 2023 Notes are unsecured obligations and bear interest at a fixed rate of 0.25% per annum, payable semi-annually in arrears on March 15 and September 15 of each year, commencing on September

15, 2018. The total net proceeds from the offering, after deducting initial purchase discounts and estimated debt issuance costs, were approximately \$561 million.

In connection with the offering of the 2025 Notes, we used \$618 million of the net proceeds from the offering of the 2025 Notes to repurchase \$426 million aggregate principal amount of the 2023 Notes in cash through individual privately negotiated transactions, or the "2023 Notes Partial Repurchase." Pursuant to ASC 470-20, *Debt with Conversion and Other Options* ("ASC Subtopic 470-20") under existing accounting rules prior to adoption of ASU 2020-06, total consideration for the repurchase was separated into liability and equity components. Of the \$618 million consideration, \$393 million and \$225 million were allocated to the debt and equity components on our consolidated balance sheets, respectively, utilizing an effective interest rate to determine the fair value of the liability component. The fair value of the liability component was estimated by calculating the present value of expected cash flows using an interest rate that reflects our incremental borrowing rate, with an estimated adjustment for our credit standing on nonconvertible debt with similar maturity. As of the repurchase date, the carrying value of the 2023 Notes subject to the 2023 Notes Partial Repurchase, net of unamortized debt discount and issuance costs, was \$367 million. The 2023 Notes Partial Repurchase resulted in a \$26 million loss on early debt extinguishment. Additionally, \$39 million of the total consideration was related to repayment of the debt discount and reflected as a cash outflow from operating activities. As of June 30, 2022, \$149 million of principal remains outstanding on the 2023 Notes.

Each \$1,000 principal amount of the 2023 Notes will initially be convertible into 15.8554 shares of our common stock (the "Conversion Option"), which is equivalent to an initial conversion price of approximately \$63.07 per share, subject to adjustment upon the occurrence of specified events.

The 2023 Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding December 15, 2022, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2018 (and only during such calendar quarter), if the last reported sale price of our common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "Measurement Period"), in which the trading price per \$1,000 principal amount of notes for each trading day of the Measurement Period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events (as set forth in the indenture). On or after December 15, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2023 Notes at any time, regardless of the foregoing circumstances. Upon conversion, we will pay or deliver, as the case may be, cash, shares of our common stock or a combination of cash and shares of our common stock, at our election. If certain specified fundamental changes occur (as set forth in the indenture governing the 2023 Notes) prior to the maturity date, holders of the 2023 Notes may require us to repurchase for cash all or any portion of their notes at a repurchase price equal to 100% of the principal amount of the 2023 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. In addition, if specific corporate events occur prior to the applicable maturity date, we will increase the conversion rate for a holder who elects to convert their notes in connection with such a corporate event in certain circumstances.

During the three months ended June 30, 2022, the conditions allowing holders of the 2023 Notes to convert were not met. To date, we have received one request for conversion for an immaterial amount of 2023 Notes. Prior to the adoption of ASU 2020-06 on January 1, 2022, in accounting for the issuance of the 2023 Notes, the 2023 Notes were separated into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar debt instrument that does not have an associated conversion feature. The carrying amount of the equity component representing the Conversion Option was \$125 million and was determined by deducting the fair value of the liability component from the par value of the 2023 Notes. The equity component was recorded in additional paid-in capital. The excess of the principal amount of the liability component over its carrying amount was amortized to interest expense over the contractual term of the 2023 Notes at an effective interest rate of 5.26%. The 2023 Notes are within one year of maturity and are therefore classified as a current liability as of June 30, 2022.

Additionally, in accounting for the debt issuance costs of \$14 million related to the 2023 Notes, we allocated the total amount incurred to the liability and equity components of the 2023 Notes based on their relative values. Issuance costs attributable to the equity component were \$3 million and were netted with the equity component in additional paid-in capital. Issuance costs attributable to the liability component were amortized to interest expense using the effective interest method over the contractual term of the 2023 Notes.

Upon adoption of ASU 2020-06, we recombined the liability and equity components of the outstanding 2023 Notes, assuming the instrument was accounted for as a single liability from inception to the date of adoption. We similarly recombined the liability and equity components of the issuance costs. The issuance costs are amortized to interest expense using the effective interest method over the contractual term of the 2023 Notes at an effective interest rate of 0.73%.

The net carrying amount of the liability component of the 2023 Notes is as follows (in thousands):

	June 30, 2022	December 31, 2021
Principal	\$ 149,194	\$ 149,194
Unamortized debt discount	—	(8,641)
Unamortized issuance costs	(507)	(815)
Net carrying amount	<u>\$ 148,687</u>	<u>\$ 139,738</u>

The net carrying amount of the equity component of the 2023 Notes is as follows (in thousands):

	June 30, 2022	December 31, 2021
Debt discount for conversion option	\$ —	\$ 32,427
Issuance costs	—	(765)
Net carrying amount	<u>\$ —</u>	<u>\$ 31,662</u>

The interest expense related to the 2023 Notes is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Contractual interest expense	\$ 93	\$ 93	\$ 186	\$ 186
Amortization of debt discount	—	1,677	—	3,333
Amortization of issuance costs	179	147	357	290
Total interest expense	<u>\$ 272</u>	<u>\$ 1,917</u>	<u>\$ 543</u>	<u>\$ 3,809</u>

### 2023 Capped Calls

In connection with the pricing of the 2023 Notes, we entered into privately negotiated capped call transactions with certain counterparties (the “2023 Capped Calls”). The 2023 Capped Calls each have an initial strike price of approximately \$63.07 per share, subject to certain adjustments, which correspond to the initial conversion price of the 2023 Notes. The 2023 Capped Calls have initial cap prices of \$95.20 per share, subject to certain adjustments. The 2023 Capped Calls covered, subject to anti-dilution adjustments, approximately 9.1 million shares of our common stock. Conditions that cause adjustments to the initial strike price of the 2023 Capped Calls mirror conditions that result in corresponding adjustments for the 2023 Notes. The 2023 Capped Calls are generally intended to reduce or offset the potential dilution to our common stock upon any conversion of the 2023 Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. For accounting purposes, the 2023 Capped Calls are separate transactions, and not part of the terms of the 2023 Notes. As these transactions meet certain accounting criteria, the 2023 Capped Calls are recorded in stockholders’ equity and are not accounted for as derivatives. The cost of \$64 million incurred in connection with the 2023 Capped Calls was recorded as a reduction to additional paid-in capital.

In June 2020, and in connection with the 2023 Notes Partial Repurchase, we terminated the 2023 Capped Calls corresponding to approximately 6.7 million shares for cash proceeds of \$83 million. The proceeds were recorded as an increase to additional paid-in capital in the consolidated balance sheets. As of June 30, 2022, there remains outstanding 2023 Capped Calls giving the Company the option to purchase approximately 2.4 million shares (subject to adjustment).

The difference between the book and tax treatment of the debt discount, debt issuance costs, and the cost of the capped call on the 2023 Notes resulted in a difference between the carrying amount and tax basis of the 2023 Notes. This taxable temporary difference resulted in the recognition of a \$14 million net deferred tax liability which was recorded as an adjustment to additional paid-in capital. The creation of the deferred tax liability represented a source of future taxable income which supported the realization of deferred tax assets. As we continued to maintain a full valuation allowance against these deferred tax assets, this additional source of income resulted in the release of a portion of the valuation allowance and was recorded as a

net income tax benefit. As of January 1, 2022, the unamortized balance of this net deferred tax liability was \$2 million, which was derecognized upon adoption of ASU 2020-06. The reduction of the net deferred tax liability was recorded to additional paid-in capital and the offsetting increase to our valuation allowance was recorded to accumulated deficit under the modified retrospective approach.

## **Note 9. Commitments and Contingencies**

### ***Commitments***

Except as discussed below, there were no material changes in our commitments under contractual obligations as disclosed in our audited consolidated financial statements for the year ended December 31, 2021.

In February 2022, we terminated and entered into a new agreement with a cloud services provider for which we have a total obligation of \$400 million over a five-year period.

### ***Litigation and Loss Contingencies***

We accrue estimates for resolution of legal and other contingencies when losses are probable and estimable. These estimates are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, estimated settlements, legal rulings, advice of legal counsel, and other information and events pertaining to a particular matter.

On October 24, 2019 and November 7, 2019, purported stockholders of the Company filed two putative class action complaints in the United States District Court for the Northern District of California, entitled *Charles Reidinger v. Zendesk, Inc., et al.*, 3:19-cv-06968-CRB and *Ho v. Zendesk, Inc., et al.*, No. 3:19-cv-07361-WHA, respectively, against the Company and certain of the Company's executive officers. The complaints are nearly identical and allege violations of Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), purportedly on behalf of all persons who purchased Zendesk, Inc. common stock between February 6, 2019 and October 1, 2019, inclusive. The claims are based upon allegations that the defendants misrepresented and/or omitted material information in certain of our prior public filings. To this point, no discovery has occurred in these cases. The court appointed a lead plaintiff and consolidated the various lawsuits into a single action (Case No. 3:19-cv-06968-CRB), and the lead plaintiff filed its amended complaint on April 14, 2020 asserting the same alleged violations of securities laws as the initial complaints. On June 29, 2020, Zendesk and the executive officer defendants moved to dismiss the amended complaint. On November 9, 2020, the court granted Zendesk's motion to dismiss and granted plaintiff leave to amend its complaint. On January 8, 2021, plaintiff filed its second amended complaint and on January 22, 2021, Zendesk and the executive officer defendants moved to dismiss the second amended complaint. On March 2, 2021, the court granted Zendesk's motion to dismiss the second amended complaint. On March 23, 2021, judgment was entered in favor of Zendesk and the executive officer defendants. On April 20, 2021, plaintiff filed a notice of appeal with the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit"). On July 29, 2021, plaintiff filed its opening brief in the appeal, and on October 13, 2021, the Company and the executive officer defendants filed their answering brief. On March 2, 2022, the Ninth Circuit affirmed dismissal. In May 2022, the deadline to file a writ of certiorari to the United States Supreme Court lapsed.

On June 2, 2020, a purported stockholder of the Company filed a derivative complaint in the United States District Court for the Northern District of California, entitled *Anderson v. Svane, et al.*, 3:20-cv-03671, against certain of the Company's executive officers and directors. The derivative complaint alleged breaches of fiduciary duty against all defendants, and an insider trading claim and violations of Section 10(b) of the Exchange Act against the officer defendants, purportedly on behalf of the Company itself. The claims were based on nearly identical allegations as the two putative class action complaints described above, namely that the defendants misrepresented and/or omitted material information in certain of our prior public filings. On July 27, 2020, the court ordered the derivative action related to the class action, and the derivative action was stayed pending resolution of the class action. On May 6, 2021, the court approved a joint stipulation to extend the stay pending the outcome of the appeal of the class action. On April 18, 2022, following the Ninth Circuit's affirmation of the dismissal of the class action, plaintiff filed a stipulation to dismiss the derivative action, which was granted by the court on May 20, 2022.

On May 27, 2022, Zendesk was named as a defendant in an employment-related putative class action captioned *Roe, et al. v. Zendesk*, No. 22-599855 (S.F. Super. Ct.). The complaint, filed by one current employee and three former employees, alleges violations of the California Equal Pay Act and Unfair Competition Law. Plaintiffs seek to represent a class consisting of all women who worked for Zendesk in California at any time during the four years preceding the filing of the complaint. Zendesk has a deadline of August 1, 2022, to respond. No damages were specified, and no settlement demands or offers have been made.

From time to time, we may be subject to other legal proceedings, claims, investigations, and government inquiries in the ordinary course of business. We have received, and may in the future continue to receive, claims from third parties asserting, among other things, infringement of their intellectual property rights, defamation, labor and employment rights, privacy, and contractual rights. In general, the resolution of a legal matter could prevent the Company from offering its service to others, could be material to the Company's financial condition or cash flows, or both, or could otherwise adversely affect the Company's operating results.

The outcomes of legal proceedings and other contingencies are inherently unpredictable and subject to significant uncertainties. As a result, the Company is not able to reasonably estimate the amount or range of possible losses in excess of any amounts accrued, including losses that could arise as a result of application of non-monetary remedies, with respect to the contingencies it faces. In management's opinion, resolution of all current matters is not expected to have a material adverse impact on business, consolidated balance sheets, results of operations, comprehensive loss, or cash flows.

#### ***Indemnifications***

In the ordinary course of business, we enter into contractual arrangements under which we agree to provide indemnification of varying scope and terms to customers, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of the breach of such agreements, intellectual property infringement claims made by third parties, and other liabilities relating to or arising from our products or our acts or omissions. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in the particular contract. Further, our obligations under these agreements may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments. In addition, we have indemnification agreements with our directors and executive officers that require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The terms of such obligations may vary. To date, we have not incurred any material costs, and we have not accrued any liabilities in our consolidated financial statements, as a result of these obligations.

Certain of our product offerings include service-level agreements warranting defined levels of uptime reliability and performance, which permit those customers to receive credits for future services in the event that we fail to meet those levels. To date, we have not accrued for any significant liabilities in our consolidated financial statements as a result of these service-level agreements.

### **Note 10. Common Stock and Stockholders' Equity**

#### ***Common Stock***

As of June 30, 2022 and December 31, 2021, there were 400 million shares of common stock authorized for issuance with a par value of \$0.01 per share, and 123.3 million and 121.6 million shares were issued and outstanding as of June 30, 2022 and December 31, 2021, respectively.

#### ***Preferred Stock***

As of June 30, 2022 and December 31, 2021, there were 10 million shares of preferred stock authorized for issuance with a par value of \$0.01 per share and no shares of preferred stock were issued or outstanding.

#### ***Employee Equity Plans***

##### ***Employee Stock Purchase Plan***

Under the Employee Stock Purchase Plan (the "ESPP"), eligible employees are granted options to purchase shares of our common stock through payroll deductions. The ESPP provides for 18-month offering periods, which include three six-month purchase periods. At the end of each purchase period, employees are able to purchase shares at 85% of the lower of the fair market value of our common stock at the beginning of the offering period or the fair market value of our common stock at the end of the purchase period. During the three and six months ended June 30, 2022, 0.3 million shares of common stock were purchased under the ESPP. During the three and six months ended June 30, 2021, 0.4 million shares of common stock were purchased under the ESPP. Pursuant to the terms of the ESPP, the number of shares reserved under the ESPP increased by 1.2 million shares on January 1, 2022. As of June 30, 2022, 6.2 million shares of common stock were available for issuance under the ESPP.

##### ***Stock Option and Grant Plans***

Our board of directors adopted the 2009 Stock Option and Grant Plan (the “2009 Plan”), in July 2009. The 2009 Plan was terminated in connection with our initial public offering in May 2014, and accordingly, no shares are available for issuance under this plan. The 2009 Plan continues to govern outstanding awards granted thereunder.

Our 2014 Stock Option and Incentive Plan (the “2014 Plan”), serves as the successor to our 2009 Plan. Pursuant to the terms of the 2014 Plan, the number of shares reserved for issuance under the 2014 Plan increased by 6.1 million shares on January 1, 2022. As of June 30, 2022, we had 20.9 million shares of common stock available for future grants under the 2014 Plan.

A summary of restricted stock unit, or “RSU”, activity for the six months ended June 30, 2022 is as follows (in thousands, except per share information):

	Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested — January 1, 2022	4,402	\$ 113.97
Granted	3,634	106.86
Vested	(958)	103.15
Forfeited or canceled	(619)	112.60
Unvested — June 30, 2022	6,459	\$ 111.71

The total fair value of RSUs vested during the six months ended June 30, 2022 and 2021 was \$97 million and \$183 million, respectively. The fair value of RSUs vested represents market value on the vesting date.

A summary of stock option activity for the six months ended June 30, 2022 is as follows (in thousands, except per share information):

	Stock Options			
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value
Outstanding — January 1, 2022	3,457	\$ 44.71	4.4	\$ 222,460
Granted	492	116.56		
Exercised	(378)	32.37		
Forfeited or canceled	(71)	119.08		
Outstanding — June 30, 2022	3,500	\$ 54.63	5.0	\$ 119,138

The aggregate intrinsic value for options outstanding represents the difference between the closing market price of our common stock on the last trading day of the reporting period and the exercise price of outstanding, in-the-money options.

The total intrinsic value of stock options exercised during the six months ended June 30, 2022 and 2021 was \$30 million and \$72 million, respectively. The intrinsic value for options exercised represents the difference between the exercise price and the market value on the date of exercise. The weighted-average grant date fair value of stock options granted during the six months ended June 30, 2022 and 2021 was \$43.72 and \$52.60, respectively.

As of June 30, 2022, we had a total of \$728 million in future expense related to our stock options, RSUs, and ESPP to be recognized over a weighted average period of 2.9 years.

#### Performance Restricted Stock Units

In the first quarter of 2022, the compensation committee of our board of directors granted performance-based restricted stock units, or PRSUs, representing a target of 0.1 million shares of common stock to certain senior executives. The PRSUs vest over a four-year service period. The PRSUs include a performance condition, based on company-wide revenue growth, and a market condition, based on our total Zendesk stockholder return as compared to the total stockholder return of the Russell 3000

Index, each measured over a one-year performance period. The PRSUs will vest in a percentage of the target number of shares depending on the extent the conditions are achieved and subject to the required service. The fair value of those PRSUs subject to the market condition was estimated on the date of grant using a Monte Carlo simulation, which incorporates various assumptions including the expected stock price volatility over the performance period and the stock price at the grant date.

The compensation cost is recognized under the accelerated attribution method. During the three and six months ended June 30, 2022, we recorded \$2 million and \$3 million of share-based compensation expense related to the PRSUs, respectively. The total future expense related to the PRSUs that are expected to vest as of June 30, 2022 is \$11 million.

#### Note 11. Deferred Revenue and Performance Obligations

The changes in the balances of deferred revenue are as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Balance, beginning of period	\$ 526,520	\$ 396,522	\$ 517,210	\$ 383,358
Billings	450,887	364,157	848,524	675,369
Subscription and services revenue	(382,250)	(302,014)	(746,626)	(584,853)
Other revenue*	(24,958)	(16,202)	(48,909)	(31,411)
Balance, end of period	\$ 570,199	\$ 442,463	\$ 570,199	\$ 442,463

\*Other revenue primarily includes implementation and training services, usage-based revenue, and amounts from contract assets.

For the three months ended June 30, 2022 and June 30, 2021, the majority of revenue recognized was from the deferred revenue balances at the beginning of each period. For the six months ended June 30, 2022 and 2021, approximately half of revenue recognized was from the deferred revenue balances at the beginning of each period. When revenue is recognized in advance of invoicing we record contract assets, which are included in prepaid expenses and other current assets on our consolidated balance sheets. As of June 30, 2022 and December 31, 2021, the balance of contract assets was \$3 million and \$4 million, respectively.

The aggregate balance of remaining performance obligations as of June 30, 2022 was \$1,406 million. We expect to recognize \$951 million of the balance as revenue in the next 12 months and the substantial majority of the remainder in the next 13-36 months. The aggregate balance of remaining performance obligations represents contracted revenue that has not yet been recognized, including contracted revenue from renewals, and does not include contract amounts which are cancellable by the customer and amounts associated with optional renewal periods.

#### Note 12. Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including those related to outstanding share-based awards and our convertible senior notes, to the extent dilutive. Basic and diluted net loss per share were the same for each period presented as the inclusion of all potential common stock outstanding would have been anti-dilutive.

The following table presents the calculation of basic and diluted net loss per share for the periods presented (in thousands, except per share data):



	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net loss	\$ (95,082)	\$ (58,407)	\$ (162,028)	\$ (107,372)
Weighted-average shares used to compute basic and diluted net loss per share	122,841	119,050	122,404	118,484
Net loss per share, basic and diluted	\$ (0.77)	\$ (0.49)	\$ (1.32)	\$ (0.91)

The anti-dilutive securities excluded from the shares used to calculate diluted net loss per share are as follows (in thousands):

	As of June 30,	
	2022	2021
Shares subject to outstanding common stock options and employee stock purchase plan	3,623	4,013
RSUs and PRSUs	6,589	4,801
Shares related to convertible senior notes	12,939	3,739
	23,151	12,553

Prior to the adoption of ASU 2020-06, we used the treasury stock method for calculating any potential dilutive effect of the conversion spread of our convertible senior notes on diluted net income per share, if applicable. The conversion spread had a dilutive impact on diluted net income per share when the average market price of our common stock for a given reporting period exceeded the initial conversion prices of \$63.07 and \$108.76 per share for the 2023 Notes and 2025 Notes, respectively.

After the adoption of ASU 2020-06, we use the if-converted method for calculating any potential dilutive effect of our convertible senior notes. Under this method, we calculate diluted net income per share assuming that all the convertible senior notes were converted solely into shares of common stock at the beginning of the reporting period. Based on the initial conversion price, potential dilution related to the 2023 Notes and 2025 Notes is approximately 2.4 million and 10.6 million shares, respectively. The potential impact upon the conversion of the convertible senior notes was excluded from the calculation of diluted net loss per share for the three and six months ended June 30, 2022 because the effect would have been anti-dilutive.

### Note 13. Income Taxes

We reported income tax expense of \$2 million for each of the three months ended June 30, 2022 and 2021. We reported income tax expense of \$6 million and \$5 million for the six months ended June 30, 2022 and 2021, respectively. The effective tax rate for each period differs from the statutory rate primarily as a result of not recognizing a deferred tax asset for United States ("U.S.") losses due to having a full valuation allowance against U.S. deferred tax assets.

### Note 14. Geographic Information

Our chief operating decision maker reviews the financial information presented on a consolidated basis for purposes of allocating resources and evaluating our financial performance. Accordingly, we have determined that we operate in a single reporting segment.

### Revenue

The following table presents our revenue by geographic area, as determined based on the billing address of our customers (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
United States	\$ 210,310	\$ 162,388	\$ 407,448	\$ 315,212
EMEA	116,212	93,017	228,335	179,434
APAC	40,662	31,840	80,550	62,970
Other	40,024	30,971	79,202	58,648
Total	\$ 407,208	\$ 318,216	\$ 795,535	\$ 616,264

#### Long-Lived Assets

The following table presents our long-lived assets by geographic area (in thousands):

	As of June 30, 2022	As of December 31, 2021
United States	\$ 33,792	\$ 59,776
EMEA:		
Republic of Ireland	28,647	34,728
Other EMEA	12,265	8,261
Total EMEA	40,912	42,989
APAC:		
Singapore	9,673	13,145
Other APAC	4,858	5,948
Total APAC	14,531	19,093
Other	7,500	5,883
Total	\$ 96,735	\$ 127,741

The table above includes property and equipment and lease right-of-use assets and excludes capitalized internal-use software and intangible assets.

#### Note 15. Agreement and Plan of Merger

On June 24, 2022, we entered into the Merger Agreement with Zoro BidCo, Inc. (“Parent”) and Zoro Merger Sub, Inc. (“Merger Sub”), affiliates of funds advised by private equity firms H&F and Permira.

The Merger Agreement provides that, among other things and on the terms and subject to the conditions of the Merger Agreement, (a) Merger Sub will merge with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly owned subsidiary of Parent, and (b) at the effective time of the Merger (the “Effective Time”), each issued and outstanding share of common stock of the Company, par value \$0.01 per share (other than certain shares as specified in the Merger Agreement) and outstanding equity awards will be converted into the right to receive \$77.50 in cash, without interest, subject to any required tax withholding as provided in the Merger Agreement (and, for stock options, less the per share exercise price and, for unvested equity awards, subject to vesting terms and conditions).

The transaction, which has been unanimously approved by Zendesk’s Board of Directors, is expected to close in the fourth quarter of this year. If the Merger is consummated, the Company common stock will be delisted from the New York Stock Exchange and deregistered under the Securities Exchange Act of 1934 at or after the Effective Time.

The completion of the Merger is subject to the satisfaction or waiver of certain customary mutual closing conditions, including the affirmative vote of holders of a majority of the outstanding shares of Company’s common stock having approved adoption of the Merger Agreement (the “Company Stockholder Approval”), the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of certain other regulatory approvals, and the absence of any law or order by a court or other governmental entity of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the Merger.

The Merger Agreement contains termination rights for each of the Company and Parent. The Company is required to pay Parent a termination fee of \$254 million in cash upon termination of the Merger Agreement under specified circumstances, including, among others, the termination by Parent in the event of an adverse recommendation change by the Board of Directors of the Company or the termination by the Company to enter into an agreement in connection with a Superior Proposal (as defined in the Merger Agreement).

The Merger Agreement also provides that a reverse termination fee of \$610 million will be payable by Parent to the Company under specified circumstances, including, among others, if (a) Parent fails to consummate the Merger following satisfaction or waiver of certain closing conditions and the Company's irrevocable confirmation that it is ready to consummate the closing or (b) Parent otherwise breaches its obligations under the Merger Agreement such that there is a failure of certain conditions to the Merger that cannot be cured by March 24, 2023. The Merger Agreement also provides that, in certain circumstances, either party may seek to compel the other party to specifically perform its obligations under the Merger Agreement.

The foregoing summary of the Merger Agreement and the transactions contemplated thereby does not purport to be complete and is subject to and qualified in its entirety by the full text of the Merger Agreement.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 15, 2022. As discussed in the section titled "Special Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, impacts on our business and general economic conditions due to the current COVID-19 pandemic, those identified below, and those discussed in the section titled "Risk Factors" included under Part II, Item 1A below.*

### Overview

We are a service-first customer relationship management company, built to give organizations of all sizes, in every industry, the ability to deliver a transparent, responsive and empowering customer experience. With solutions designed to address an increasingly broad set of customer interactions, Zendesk allows organizations to deliver omnichannel customer service and customize and build apps across the customer journey. Zendesk has evolved its offerings over time to product and platform solutions that work together to help organizations improve the broader customer journey, manage communications across all channels and engage where and when it's needed most.

We believe in developing solutions that serve organizations of all sizes and across all industries. Our flagship product solution is the Zendesk Suite. It provides companies of all sizes everything they need to deliver exceptional, personalized customer experiences at scale. The Suite includes our core support tools ranging from omni-channel messaging to ticket management. Zendesk Support provides organizations with the ability to track, prioritize, and solve customer support tickets across multiple channels, bringing customer information and interactions into one place. Our other widely available product solutions integrate with Support and include Zendesk Chat, Zendesk Talk, and Zendesk Guide. Chat is live chat and messaging software that provides a fast and responsive way for organizations to connect with their customers. Talk is cloud-based call center software that facilitates personal and productive voice and short message service support conversations between organizations and their customers. Guide is a self-service destination that organizations can use to provide articles, interactive forums, and a community that help an organization's customers help themselves.

We additionally offer Zendesk Sell, sales customer relationship management software that complements our mission in delivering solutions that provide a better customer experience, Zendesk Explore, a solution to provide analytics for organizations to measure and improve the entire customer experience, Zendesk Gather, a product solution that enables companies to provide trusted and transparent support to customers through online community forums, Zendesk Sunshine, a customer relationship management platform which enables organizations to connect and integrate customer data generated through our product solutions, and Zendesk Sunshine Conversations, a messaging platform solution that allows businesses to integrate messaging through social channels and directly interact and transact with customers.

We offer a range of subscription account plans for our solutions that vary in price based on functionality, type, and the amount of product support we offer. We also offer a range of additional features that customers can purchase and add to their subscriptions.

For the three months ended June 30, 2022 and 2021, our revenue was \$407 million and \$318 million, respectively, representing a 28% growth rate. For the six months ended June 30, 2022 and 2021, our revenue was \$796 million and \$616 million, respectively, representing a 29% growth rate. For the three months ended June 30, 2022 and 2021, we derived \$197 million, or 48%, and \$156 million, or 49%, respectively, of our revenue from customers located outside of the United States. For the six months ended June 30, 2022 and 2021, we derived \$388 million, or 49%, and \$301 million, or 49%, respectively, of our revenue from customers located outside of the United States. We expect that the rate of growth in our revenue will decline as our business scales, even if our revenue continues to grow in absolute terms. For the three months ended June 30, 2022 and 2021, we generated net losses of \$95 million and \$58 million, respectively. For the six months ended June 30, 2022 and 2021, we generated net losses of \$162 million and \$107 million, respectively.

We expect our financial results in future periods to be negatively impacted by ongoing macroeconomic factors including a substantial risk of global recession, persistent high inflation, changing consumer behavior and labor market dynamics that have and may continue to result in substantial employee attrition. In the quarter ended June 30, 2022, we experienced a decline in gross bookings of 16% and a decline in net bookings of 42% from the quarter ended June 30, 2021. Due to these results and ongoing changing business conditions, we expect that revenue for the year ending December 31, 2022 will grow at a rate less than previously anticipated and that growth rates in subsequent periods may also be impacted.

The growth of our business and our future success depend on many factors, including our ability to continue to innovate, further develop our product and platform solutions geared towards the entire customer experience, build brand recognition and scalable solutions for larger organizations, sell to and provide a unified and reliable service to those larger organizations, maintain our leadership in the small and midsized business market, add new customers, generate additional revenue from our existing customer base, and increase our global customer footprint. While these areas represent significant opportunities for us, we also face significant risks and challenges that we must successfully address in order to sustain the growth of our business and improve our operating results. We anticipate that we will continue to invest in our operations. The expected expenditures that we anticipate will be necessary to manage our anticipated growth, including personnel costs and expenditures relating to hosting capabilities, will make it more difficult for us to achieve profitability in the near term. Many of these investments will occur in advance of us experiencing any direct benefit and will make it difficult to determine if we are allocating our resources efficiently.

We have focused on rapidly growing our business and plan to continue to invest for long-term growth. We expect to continue to develop our hosting capabilities primarily through expenditures for third-party managed hosting services. The amount and timing of these expenditures will vary based on our estimates of projected growth and planned use of hosting resources. Over time, we anticipate that we will continue to gain economies of scale by efficiently utilizing our hosting and personnel resources to support the growth in our number of customers. In addition, we expect to incur third-party license fees to support certain products and amortization expense associated with acquired intangible assets and capitalized internal-use software. As a result, we expect our gross margin to improve in the long-term, although our gross margin may decrease in the near-term and may vary from period to period as our revenue fluctuates and as a result of the timing and amount of such costs.

We expect our operating expenses to continue to increase in absolute dollars in future periods. We have invested, and expect to continue to invest, in our software development efforts to broaden the functionality of our existing solutions, to further integrate these solutions and services, and to introduce new solutions. We plan to continue to invest in our sales and marketing organizations, particularly in connection with our efforts to expand our customer base and expand usage of our solutions. We also expect to continue to incur additional general and administrative costs in order to support the growth of our business and the infrastructure required to comply with our obligations as a public company.

#### **Proposed Merger**

On June 24, 2022, we entered into the Merger Agreement to be acquired by an investor group in an all-cash transaction valued at approximately \$10.2 billion. Under the terms of this agreement, our stockholders will receive \$77.50 per share. The proposed transaction is expected to close in the fourth quarter of 2022 and is subject to customary closing conditions, including approval by our stockholders.

For a summary of the transaction, see Note 15 of the Notes to our Condensed Consolidated Financial Statements. The foregoing summary of the Merger Agreement and the transactions contemplated thereby does not purport to be complete and is subject to and qualified in its entirety by the full text of the Merger Agreement, which is filed as Exhibit 2.1 of the Company's Current Report on Form 8-K filed on June 24, 2022, Film No. 221040943.

#### **COVID-19 Update**

We are continuing to ascertain the long-term impact of the COVID-19 pandemic on our business. We continue to focus on supporting our employees, customers, and community.

Our business continuity plans have continued to focus on the health and safety of our employees while continuing to drive innovation in customer experience solutions for our customers. The ongoing global shift to a digital-first world has continued to emphasize the importance of fast time-to-value solutions such as our own and our need to reimagine the way our employees engage with each other and their customers. We continue to evaluate conditions in each region we operate and reassess local restrictions across the globe. We have reopened some of our offices on a staggered, region-to-region basis in accordance with local authority guidelines, while taking into account vaccine administration prevalence and infection rates.

Because we primarily have a subscription-based business model which generally results in recognition of revenue in subsequent periods originating from customer contracts executed in prior periods, the effects of the COVID-19 pandemic may continue to have a delayed impact on our results of operations. See the “Risk Factors” section for further discussion of the possible impact of the COVID-19 pandemic on our business.

### Key Business Metrics

We review a number of operating metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make strategic decisions.

**Logos.** Our number of logos is a consolidation of paid customer accounts across our solutions, exclusive of our legacy Starter plan, free trials, or other free services, as of the end of the period. A paid customer account is one individual billing relationship for subscription to our services. We calculate our logo number by consolidating paid customer accounts that share common corporate information as a single organization or customer may have multiple paid customer accounts across our solutions to service separate subsidiaries, divisions, or work processes. As of June 30, 2022, we had 109,600 logos. We do not currently include in our logo metric logos associated with our legacy analytics product, our legacy Outbound product, our legacy Starter plan, our Sell product, Sunshine Conversations, our legacy Smooch product, free trials, or other free services. We may from time to time refer to “customers” or “brands” in our publicly-available disclosures, each of which refers to our number of logos.

**Dollar-Based Net Expansion Rate.** Our ability to generate revenue is dependent upon our ability to maintain our relationships with our customers and to increase their utilization of our solutions. We believe we can achieve this by focusing on delivering value and functionality that retains our existing customers, expands the number of authorized agents associated with an existing logo, and results in upgrades to higher-priced subscription plans and the purchase of additional products. Maintaining customer relationships allows us to sustain and increase revenue to the extent customers maintain or increase the number of authorized agents licensed to use our products. We assess our performance in this area by measuring our dollar-based net expansion rate. Our dollar-based net expansion rate provides a measurement of our ability to increase revenue across our existing customer base through expansion of authorized agents associated with a logo, upgrades in subscription plans, and the purchase of additional products as offset by contraction and churn in authorized agents associated with a logo, and downgrades in subscription plans. We do not currently incorporate operating metrics associated with our legacy analytics product, our legacy Outbound product, our legacy Starter plan, our Sell product, Sunshine Conversations, our legacy Smooch product, free trials, or other free services into our measurement of dollar-based net expansion rate.

Our dollar-based net expansion rate is based upon our annual recurring revenue for a set of logos on our products. Annual recurring revenue is determined by multiplying monthly recurring revenue by 12. Monthly recurring revenue is a legal and contractual determination made by assessing the contractual terms, as of the date of determination, as to the revenue we expect to generate in the next monthly period, assuming no changes to the subscription and without taking into account any usage above the subscription base, if any, that may be applicable to such subscription. We exclude the impact of revenue that we expect to generate from fixed-term contracts that are each associated with an existing account, are solely for additional temporary agents, and are not contemplated to last for the duration of the primary contract for the existing account from our determination of monthly recurring revenue. We additionally exclude the impact of accounts that are free-trial accounts that did not result in paid subscriptions, and temporary coupons, such as short-term discounts that were applied to certain accounts due to the COVID-19 pandemic, from our annual recurring revenue. Monthly recurring revenue is not determined by reference to historical revenue, deferred revenue, or any other GAAP financial measure over any period.

We calculate our dollar-based net expansion rate by dividing our retained revenue net of contraction and churn by our base revenue. We define our base revenue as the aggregate annual recurring revenue across our products from logos as of the date one year prior to the date of calculation. We define our retained revenue net of contraction and churn as the aggregate annual recurring revenue across our products from the same customer base included in our measure of base revenue at the end of the annual period being measured.

Our dollar-based net expansion rate was 115% as of June 30, 2022. We expect that, among other factors, our continued focus on adding larger logos at the time of addition and the growth in our revenue will result in an overall decline in our dollar-based net expansion rate over time as our aggregate annual recurring revenue grows.

### Components of Results of Operations

#### Revenue

We derive substantially all of our revenue from subscription services, which are comprised of subscription fees from customer accounts on the Zendesk Suite, Support, and, to a lesser extent, Chat, Talk, Guide, Sell, Explore, Gather and Sunshine and includes related support services. Each subscription may have multiple authorized users, and we refer to each user as an “agent.” The number of agents ranges from one to thousands for various customer accounts. Our pricing is generally established on a per agent basis. We offer a range of subscription account plans for our solutions that vary in price based on functionality, type, and the amount of support we offer. We also offer a range of additional features that customers can purchase and add to their subscriptions. Certain arrangements provide for incremental fees above a fixed maximum number of monthly agents during the subscription term. Additionally, certain customers have arrangements that provide for unlimited users during the subscription term for a fixed fee. We sell subscription services under contractual agreements that vary in length, ranging between one month and multiple years, with the majority of subscriptions having a term of either one month or one year.

Subscription fees are generally non-refundable regardless of the actual use of the service. Subscription revenue is typically affected by the number of customer accounts, number of agents, and the type of plan purchased by our customers, and is recognized ratably over the term of the arrangement beginning on the date that our services are made available to our customers. Subscription services purchased online are typically paid for via a credit card on the date of purchase while subscription services purchased through our internal sales organization are generally billed with monthly, quarterly, or annual payment frequencies. Due to our mixed contract lengths and billing frequencies, the annualized value of the arrangements we enter into with our customers may not be fully reflected in deferred revenue at any single point in time. Accordingly, we do not believe that the change in deferred revenue for any period provides sufficient context to accurately predict our future revenue for a given period of time.

We also derive revenue from implementation and training services, for which we recognize revenue based on proportional performance, and Talk usage, for which we recognize revenue based on usage.

#### ***Cost of Revenue, Gross Margin, and Operating Expenses***

***Cost of Revenue.*** Cost of revenue consists primarily of personnel costs (primarily including salaries, share-based compensation, and benefits) for employees associated with our infrastructure, product support, and professional service organizations and partners, and expenses for hosting capabilities, primarily for third-party managed hosting services located in North America, Europe, Asia and Australia. Cost of revenue also includes third-party license fees, payment processing fees, amortization expense associated with acquired intangible assets, amortization expense associated with capitalized internal-use software, and allocated shared costs. We allocate shared costs such as facilities, information technology, and security costs to all departments based on headcount. As such, allocated shared costs are reflected in cost of revenue and each operating expense category.

We intend to continue to invest additional resources in our infrastructure, professional service partners, and product support organically and through acquisitions. We expect that recent and future business acquisitions will result in increased amortization expense of intangible assets such as acquired technology. As we continue to invest in technology innovation, we expect to continue to incur capitalized internal-use software costs and related amortization. We expect these investments in technology to not only expand the capabilities of our solutions but also to increase the efficiency of how we deliver these services, enabling us to improve our gross margin over time, although our gross margin may decrease in the near-term and may vary from period to period as our revenue fluctuates and as a result of the timing and amount of these investments. To the extent that we continue to rely on third-party technology to provide certain functionality within our solutions or for certain subscription plans or integrations, we expect third-party license fees for technology that is incorporated in such solutions and subscription plans to remain significant over time.

***Gross Margin.*** Gross margin is gross profit expressed as a percentage of revenue. Our gross margin may fluctuate from period to period as our revenue fluctuates and as a result of the timing and amount of usage of third-party managed hosting resources and related personnel, investments in our product support and professional services teams, as well as the amortization of certain acquired intangible assets, costs associated with capitalized internal-use software, and third-party license fees.

***Research and Development.*** Research and development expenses consist primarily of personnel costs (primarily including salaries, share-based compensation, and benefits) for employees associated with our research and development organization and allocated shared costs.

We focus our research and development efforts on the continued development of our solutions, including the development and deployment of new features and functionality and enhancements to our software architecture and integration across our solutions. We expect that, in the future, research and development expenses will increase in absolute dollars. However, we expect our research and development expenses to decrease as a percentage of our revenue in the long-term,

although this may fluctuate from period to period depending on fluctuations in revenue and the timing and the extent of our research and development expenses.

***Sales and Marketing.*** Sales and marketing expenses consist of personnel costs (primarily including salaries, share-based compensation, sales commissions, and benefits) for employees associated with our sales and marketing organizations, costs of marketing activities, and allocated shared costs. Marketing activities include online and offline marketing initiatives, including digital advertising, such as search engine, paid social, e-mail and product marketing, content marketing, user events, conferences, corporate communications, web marketing and optimization, and outbound list and contact generation. Sales commissions are considered incremental costs of obtaining customer contracts and are capitalized and amortized on a straight-line basis over their anticipated period of benefit, which we have determined to be three years.

We focus our sales and marketing efforts on generating awareness of our solutions, establishing and promoting our brand, and cultivating a community of successful and vocal customers. We plan to continue investing in sales and marketing by increasing the number of sales employees, developing our marketing teams, improving our demand generation strategies, and building brand awareness, which we believe will enable us to add new customers and increase penetration within our existing customer base. Because we do not have a long history of undertaking or growing many of these activities, we cannot predict whether, or to what extent, our revenue will increase as we invest in these strategies. We expect our sales and marketing expenses to continue to increase in absolute dollars and continue to be our largest operating expense category for the foreseeable future. Our sales and marketing expenses as a percentage of our revenue over time may fluctuate from period to period depending on fluctuations in revenue and the timing and extent of our sales and marketing expenses.

***General and Administrative.*** General and administrative expenses consist primarily of personnel costs (primarily including salaries, share-based compensation, and benefits) for our executive, finance, legal, human resources, and other administrative employees. In addition, general and administrative expenses include fees for third-party professional services, including legal, accounting, and tax related services, allowance for credit losses on accounts receivable, other corporate expenses, and allocated shared costs.

We expect to incur incremental costs associated with supporting the growth of our business, both in terms of size and geographic expansion. As a result, we expect our general and administrative expenses to continue to increase in absolute dollars in the long-term. Our general and administrative expenses as a percentage of our revenue over time may fluctuate from period to period depending on fluctuations in revenue and the timing and extent of our general and administrative expenses.

***Other Income (Expense), Net***

Other income (expense), net consists primarily of interest income from marketable securities, strategic investment gains and losses, foreign currency gains and losses, and interest expense from our convertible senior notes. Interest expense includes amortization of the debt discount, amortization of issuance costs, and contractual interest expense.

***Provision for (Benefit from) Income Taxes***

Provision for (benefit from) income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions.

**Results of Operations**

The following tables set forth our results of operations for the periods presented in dollars and as a percentage of our revenue (in thousands, except percentages):



	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 407,208	\$ 318,216	\$ 795,535	\$ 616,264
Cost of revenue (1)	82,790	66,743	158,468	127,637
Gross profit	324,418	251,473	637,067	488,627
Operating expenses (1):				
Research and development	110,539	82,826	218,616	156,609
Sales and marketing	209,160	165,250	410,820	322,768
General and administrative	97,210	45,818	160,748	88,951
Total operating expenses	416,909	293,894	790,184	568,328
Operating loss	(92,491)	(42,421)	(153,117)	(79,701)
Other income (expense), net:				
Interest expense	(3,121)	(14,591)	(6,242)	(29,006)
Interest and other income (expense), net	2,094	960	2,932	6,044
Total other income (expense), net	(1,027)	(13,631)	(3,310)	(22,962)
Loss before provision for income taxes	(93,518)	(56,052)	(156,427)	(102,663)
Provision for income taxes	1,564	2,355	5,601	4,709
Net loss	\$ (95,082)	\$ (58,407)	\$ (162,028)	\$ (107,372)

(1) Includes share-based compensation expense as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of revenue	\$ 6,982	\$ 5,218	\$ 13,159	\$ 9,704
Research and development	20,482	17,024	39,769	32,697
Sales and marketing	31,120	24,501	57,920	47,733
General and administrative	14,775	9,951	26,449	18,934

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenue (1)	20.3	21.0	19.9	20.7
Gross profit	79.7	79.0	80.1	79.3
Operating expenses (1):				
Research and development	27.1	26.0	27.5	25.4
Sales and marketing	51.4	51.9	51.6	52.4
General and administrative	23.9	14.4	20.2	14.4
Total operating expenses	102.4	92.3	99.3	92.2
Operating loss	(22.7)	(13.3)	(19.2)	(12.9)
Other income (expense), net:				
Interest expense	(0.8)	(4.6)	(0.8)	(4.7)
Interest and other income (expense), net	0.5	0.3	0.4	1.0
Total other income (expense), net	(0.3)	(4.3)	(0.4)	(3.7)
Loss before provision for income taxes	(23.0)	(17.6)	(19.6)	(16.6)
Provision for income taxes	0.4	0.7	0.7	0.8
Net loss	(23.4)%	(18.3)%	(20.3)%	(17.4)%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of revenue	1.7 %	1.6 %	1.7 %	1.6 %
Research and development	5.0	5.3	5.0	5.3
Sales and marketing	7.6	7.7	7.3	7.7
General and administrative	3.6	3.1	3.3	3.1

### Revenue

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2022	2021		2022	2021	
(In thousands, except percentages)						
Revenue	\$ 407,208	\$ 318,216	28 %	\$ 795,535	\$ 616,264	29 %

Revenue increased \$89 million, or 28%, in the three months ended June 30, 2022 compared to the same period in 2021. The total increase in revenue was primarily attributable to expansions from existing accounts as of June 30, 2021 and the remainder was attributable to revenue from new accounts acquired thereafter. Revenue increased \$179 million, or 29%, in the six months ended June 30, 2022 compared to the same period in 2021. The total increase in revenue was primarily attributable to expansions from existing accounts and the remainder was attributable to revenue from new accounts. Revenue from new accounts on a year-to-date basis reflects the revenue recognized from new customers acquired in the 12 months prior for each discrete quarter within the year-to-date period.

### Cost of Revenue and Gross Margin

	Three Months Ended June 30,				Six Months Ended June 30,					
	2022	2021	% Change		2022	2021	% Change			
(In thousands, except percentages)										
Cost of revenue	\$	82,790	\$	66,743	24 %	\$	158,468	\$	127,637	24 %
Gross margin		79.7 %		79.0 %			80.1 %		79.3 %	

Cost of revenue increased \$16 million, or 24%, and \$31 million, or 24%, in the three and six months ended June 30, 2022, respectively, compared to the same periods in 2021. The overall increase was primarily due to higher employee compensation costs of \$9 million and \$19 million, respectively, driven by headcount growth, and increased hosting and related costs of \$5 million and \$6 million, respectively, driven by increased customer usage. Additionally, in the three and six months ended June 30, 2022, allocated shared costs increased by \$1 million and \$2 million, respectively.

Our gross margin increased by 0.7 and 0.8 percentage points in the three and six months ended June 30, 2022, respectively, compared to the same periods in 2021. The overall improvement was driven primarily by efficiencies in our use of third-party licenses and hosting services, including timing of vendor credits, partially offset by increased employee compensation-related costs.

### Operating Expenses

#### Research and Development Expenses

	Three Months Ended June 30,		% Change	Six Months Ended June 30,		% Change
	2022	2021		2022	2021	
	(In thousands, except percentages)					
Research and development	\$ 110,539	\$ 82,826	33 %	\$ 218,616	\$ 156,609	40 %

Research and development expenses increased \$28 million, or 33%, and \$62 million, or 40%, in the three and six months ended June 30, 2022, respectively, compared to the same periods in 2021. The overall increase was primarily due to increased employee compensation-related costs of \$22 million and \$48 million, respectively, primarily due to headcount growth. The increase was also primarily due to higher allocated shared costs of \$2 million and \$6 million, respectively.

### Sales and Marketing Expenses

	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change		
	2022	2021			2022	2021				
(In thousands, except percentages)										
Sales and marketing	\$	209,160	\$	165,250	27 %	\$	410,820	\$	322,768	27 %

Sales and marketing expenses increased \$44 million, or 27%, and \$88 million, or 27%, respectively, in the three and six months ended June 30, 2022 compared to the same periods in 2021. The overall increase was primarily due to increased employee compensation-related costs, including amortization of deferred commissions, of \$42 million and \$77 million, respectively, primarily due to headcount growth. The increase was also primarily due to higher allocated shared costs of \$4 million and \$9 million, respectively. The overall increase was partially offset by lower marketing program costs of \$8 million in each of the three and six months ended June 30, 2022, primarily driven by decreased volume of marketing and advertising activities.

### General and Administrative Expenses

	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change		
	2022	2021			2022	2021				
	(In thousands, except percentages)									
General and administrative	\$	97,210	\$	45,818	112 %	\$	160,748	\$	88,951	81 %

General and administrative expenses increased \$51 million, or 112%, and \$72 million, or 81%, in the three and six months ended June 30, 2022, respectively, compared to the same periods in 2021. The overall increase was driven by real estate impairment charges of \$25 million and legal and advisory costs related to our strategic review of \$12 million recorded in the second quarter of 2022. Further contributing to the overall increase were higher employee compensation-related costs of \$12 million and \$21 million, primarily due to headcount growth, and higher allocated shared costs of \$2 million and \$3 million, in the three and six months ended June 30, 2022, respectively. In addition, acquisition-related costs of \$10 million recorded in the first quarter of 2022 contributed to the increase in the six months ended June 30, 2022, compared to the same period in 2021.

### Other Income (Expense), Net

	Three Months Ended June 30,				Six Months Ended June 30,			
	2022	2021		% Change	2022	2021		% Change
	(In thousands, except percentages)							
Interest expense	\$	(3,121)	\$	(14,591)	(79)%	\$	(6,242)	(29,006) (78)%
Interest and other income (expense), net		2,094		960	118 %		2,932	6,044 (51)%

Interest expense decreased by \$11 million and \$23 million in the three and six months ended June 30, 2022, respectively, compared to the same periods in 2021, primarily due to the adoption of ASU 2020-06, which resulted in the elimination of the debt discounts that were amortized to interest expense over the contractual term of the related convertible senior notes prior to January 1, 2022. Interest and other income (expense), net increased by \$1 million in the three months ended June 30, 2022 compared to the same period in 2021, primarily due to rising interest rates. Interest and other income (expense), net decreased by \$3 million in the six months ended June 30, 2022 compared to the same period in 2021, primarily due to net foreign currency losses.

### Liquidity and Capital Resources

As of June 30, 2022, our principal sources of liquidity were cash, cash equivalents, and marketable securities totaling \$1.6 billion, which were held for working capital and general corporate purposes. Our cash equivalents and marketable securities are comprised of U.S. Treasury securities, corporate bonds, money market funds, asset-backed securities, agency securities, commercial paper, certificates of deposit, and time deposits.

The following table summarizes our cash flows for the periods indicated (in thousands):

	Six Months Ended June 30,	
	2022	2021
Net cash provided by operating activities	\$ 60,237	\$ 60,473
Net cash used in investing activities	(4,265)	(80,676)
Net cash provided by financing activities	36,309	35,611

To date, we have financed our operations primarily through customer payments for subscription services, the issuance of our convertible senior notes, and public and private equity financings. Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic, including timing of cash collections from our customers, and other risks detailed in the “Risk Factors” section. However, based on our current business plan and revenue prospects, we believe that our existing cash, cash equivalents, and marketable securities balances, together with cash generated from operations, will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months.

In March 2018, we issued \$575 million aggregate principal amount of 0.25% convertible senior notes due March 15, 2023 (refer to Note 8 of the Notes to our Condensed Consolidated Financial Statements for more information). As of the date of this filing, we have received one request for conversion for an immaterial amount. The 2023 Notes are not convertible during the three months ending September 30, 2022.

In June 2020, we issued \$1,150 million aggregate principal amount of 0.625% convertible senior notes due June 15, 2025 (refer to Note 8 of the Notes to our Condensed Consolidated Financial Statements for more information). In connection with the offering of the 2025 Notes, we used \$618 million of the proceeds from the offering to repurchase a portion of the 2023 Notes, of which \$39 million was related to repayment of the debt discount and was reflected as a cash outflow from operating activities. We also terminated a portion of our existing capped call in amounts corresponding to the principal of the 2023 Notes repurchased. The 2025 Notes are not convertible during the three months ending September 30, 2022.

We are in compliance with all covenants under both the 2023 Notes and the 2025 Notes as of June 30, 2022.

The impact of the 2023 Notes and the 2025 Notes on our liquidity will depend on whether we elect to settle any conversions in shares of our common stock or a combination of cash and shares. In connection with the closing of the Merger, the outstanding Notes will be terminated and the Capped Calls are expected to be unwound. In the case that the Merger is terminated, the Option Counterparties may adjust the initial strike prices of the Capped Calls upward to reflect the impact of the Merger announcement on the option values.

Our material cash requirements from known contractual and other obligations consist of our convertible senior notes, obligations under operating leases for office space, and contractual commitments for third-party managed hosting and other support services. For more information regarding our convertible senior notes, refer to Note 8 of the Notes to our Condensed Consolidated Financial Statements. For more information regarding our lease obligations, refer to Note 6 of the Notes to our Condensed Consolidated Financial Statements. Our other contractual obligations consist primarily of purchase commitments for third-party managed hosting services. Except as discussed below, there were no material changes to our material cash requirements from known contractual and other obligations from those disclosed in our audited consolidated financial statements for the year ended December 31, 2021.

In February 2022, we terminated and entered into a new agreement with a cloud services provider for which we have a total obligation of \$400 million over a five-year period.

Our future capital requirements will depend on many factors, including employee-related expenditures from expansion of our headcount, hosting costs to support the growth in our customer accounts and continued customer expansion, the timing and extent of spending to support product development efforts, the introduction of new and enhanced solutions, features, and functionality, the expansion of sales and marketing activities, and costs related to leased office facilities. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, and technologies, and intellectual property rights. We may be required to seek additional equity or debt financing in order to meet these future capital requirements. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition would be adversely affected.

### ***Operating Activities***

Our largest source of operating cash inflows is cash collections from our customers. Our primary uses of cash from operating activities are for employee-related expenditures, hosting costs, office facilities, and marketing programs.

Net cash provided by operating activities in the six months ended June 30, 2022 was \$60 million, reflecting our net loss of \$162 million, adjusted by non-cash charges including share-based compensation expense of \$137 million, amortization of deferred costs of \$42 million, real estate impairment charges of \$25 million, depreciation and amortization of \$20 million, allowance for credit losses on accounts receivable of \$4 million, and amortization of debt issuance costs of \$2 million, partially offset by net changes in operating assets and liabilities of \$13 million. The net outflow from changes in operating assets and liabilities was primarily attributable to an increase in deferred costs of \$57 million, primarily including sales commissions, a decrease in accrued compensation and related benefits of \$29 million, and an increase in prepaid expenses and other current assets of \$9 million, partially offset by an increase in deferred revenue of \$52 million, an increase in accounts payable of \$22 million due to timing of vendor payments, and a decrease in accounts receivable of \$9 million due to timing of customer billings and collections.

Net cash provided by operating activities in the six months ended June 30, 2021 was \$60 million, reflecting our net loss of \$107 million, adjusted by non-cash charges including share-based compensation expense of \$109 million, amortization of deferred costs of \$31 million, amortization of debt discount and issuance costs of \$25 million, depreciation and amortization of \$19 million, and allowance for credit losses on accounts receivable of \$4 million, partially offset by net changes in operating assets and liabilities of \$21 million. The net outflow from changes in operating assets and liabilities was primarily attributable to an increase in deferred costs of \$53 million, primarily including sales commissions, a decrease in lease liabilities of \$17 million driven partially by the execution of a lease termination, an increase in accounts receivable of \$11 million due to timing of customer billings and collections, and a decrease in accrued compensation and benefits of \$6 million, partially offset by an increase in deferred revenue of \$59 million and a decrease in lease right-of-use assets of \$9 million.

### ***Investing Activities***

Net cash used in investing activities in the six months ended June 30, 2022 of \$4 million was primarily attributable to purchases of property and equipment of \$13 million, primarily for leasehold improvements for newly leased office facilities and employee equipment, capitalized internal-use software costs of \$6 million, primarily related to the development of additional features and functionality for our platform, and the purchase of a strategic investment of \$1 million, partially offset by proceeds from sales and maturities of marketable securities of \$15 million, net of purchases.

Net cash used in investing activities in the six months ended June 30, 2021 of \$81 million was primarily attributable to purchases of marketable securities of \$67 million, net of sales and maturities, capitalized internal-use software costs of \$8 million primarily related to the development of additional features and functionality for our platform, and purchases of property and equipment of \$6 million, primarily for employee equipment.

### ***Financing Activities***

Net cash provided by financing activities in the six months ended June 30, 2022 of \$36 million was primarily attributable to proceeds from our employee stock purchase plan of \$28 million and proceeds from exercises of employee stock options of \$12 million, partially offset by payments for withholding taxes related to net share settlement of RSUs of \$4 million.

Net cash provided by financing activities in the six months ended June 30, 2021 of \$36 million was primarily attributable to proceeds from our employee stock purchase plan of \$27 million and proceeds from exercises of employee stock options of \$15 million, partially offset by payments for withholding taxes related to net share settlement of RSUs of \$6 million.

### **Critical Accounting Policies and Estimates**

We prepare our condensed consolidated financial statements in accordance with GAAP. In the preparation of these condensed consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations would be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates.

There were no changes to our critical accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission (the “SEC”) on February 15, 2022, that had a material impact on our condensed consolidated financial statements and related notes.

#### ***Recently Issued and Adopted Accounting Pronouncements***

Refer to Note 1 of the Notes to our Condensed Consolidated Financial Statements for a summary of recently issued and adopted accounting pronouncements.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

#### **Foreign Currency Exchange Rate Risk**

While we primarily transact with customers in the U.S. dollar, we also transact in foreign currencies, including the Euro, British Pound Sterling, Australian Dollar, Singapore Dollar, Danish Krone, Brazilian Real, Philippine Peso, Japanese Yen, Indian Rupee, Korean Won, Polish Zloty, Canadian Dollar, and Mexican Peso due to foreign operations and customer sales. We expect to continue to grow our foreign operations and customer sales. Our international subsidiaries maintain certain asset and liability balances that are denominated in currencies other than the functional currencies of these subsidiaries, which is the U.S. dollar for all international subsidiaries. Changes in the value of foreign currencies relative to the U.S. dollar can result in fluctuations in our total assets, liabilities, revenue, operating expenses, and cash flows. As of June 30, 2022, the effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our cash and marketable securities.

We operate a hedging program to mitigate the impact of foreign currency fluctuations on our cash flows and earnings. For additional information, see Note 3 of the Notes to our Condensed Consolidated Financial Statements.

#### **Interest Rate and Market Risk**

We had cash, cash equivalents, and marketable securities totaling \$1.6 billion as of June 30, 2022, of which \$1.4 billion was invested in U.S. Treasury securities, corporate bonds, money market funds, asset-backed securities, agency securities, commercial paper, certificates of deposit, and time deposits. The cash and cash equivalents are held for working capital and general corporate purposes. Our investments in marketable securities are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

Our cash equivalents and marketable securities are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely affected due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fluctuate due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. Our debt securities are classified as “available for sale.” When the fair value of the security declines below its amortized cost basis, any portion of that decline attributable to credit losses, to the extent expected to be nonrecoverable before the sale of the security, is recognized in our consolidated statement of operations. When the fair value of the security declines below its amortized cost basis due to changes in interest rates, such amounts are recorded in other comprehensive income (loss), and are recognized in our consolidated statement of operations only if we sell or intend to sell the security before recovery of its cost basis.

As of June 30, 2022, an immediate increase of 100-basis points in interest rates would have resulted in a decline in the fair value of our cash equivalents and portfolio of marketable securities of approximately \$9 million. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur.

We had non-controlling equity investments in privately held companies totaling \$17 million as of June 30, 2022. The fair value of these strategic investments may fluctuate depending on the financial condition and near-term prospects of these companies, and we may be required to record an impairment loss if the carrying values of these investments exceed their fair values.

In March 2018, we issued \$575 million aggregate principal amount of the 2023 Notes. In June 2020, we issued \$1,150 million aggregate principal amount of the 2025 Notes. In connection with the offering of the 2025 Notes, we used part of the proceeds from the offering to repurchase a portion of the 2023 Notes. The fair values of the Notes are subject to interest rate risk, market risk and other factors due to the conversion feature. The fair values of the Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines. The interest and market value

changes affect the fair values of the Notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligations. Additionally, we carry the Notes at face value less unamortized discount on our balance sheet, and we present the fair value for required disclosure purposes only.

The table below provides a sensitivity analysis of hypothetical 10% changes of our stock price as of June 30, 2022 and the estimated impact on the fair value of the Notes (in thousands, except percentages). The selected scenarios are not predictions of future events, but rather are intended to illustrate the effect such events may have on the fair value of the Notes.

Hypothetical change in Zendesk stock price	2023 Notes fair value	Estimated change in fair value	Hypothetical percentage increase (decrease) in fair value
10% increase	\$ 193,429	\$ 16,494	9.3 %
No change	\$ 176,935	\$ —	— %
10% decrease	\$ 162,243	\$ (14,692)	(8.3)%

  

Hypothetical change in Zendesk stock price	2025 Notes fair value	Estimated change in fair value	Hypothetical percentage increase (decrease) in fair value
10% increase	\$ 997,499	\$ 24,748	2.5 %
No change	\$ 972,751	\$ —	— %
10% decrease	\$ 959,066	\$ (13,685)	(1.4)%

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on management's evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

##### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may be subject to other legal proceedings, claims, investigations, and government inquiries in the ordinary course of business. We have received, and may in the future continue to receive, claims from third parties asserting, among other things, infringement of their intellectual property rights, defamation, labor and employment rights, privacy, and contractual rights. Legal risk is enhanced in certain jurisdictions outside the United States where our protection from liability for content added to our products by third parties may be unclear and where we may be less protected under local laws than we are in the United States. Future litigation may be necessary to defend ourselves, our partners, and our customers by determining the scope, enforceability, and validity of third-party proprietary rights, or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors. In general, the resolution of a legal matter could prevent the Company from offering its service to others, could be material to the Company's financial condition or cash flows, or both, or could otherwise adversely affect the Company's operating results.

For more information regarding legal proceedings, such as the Reidinger securities class action and the Roe employment-related class action, see Note 9 "Commitments and Contingencies" of the Notes to our Condensed Consolidated Financial Statements in Item 1 of Part I.

In management's opinion, resolution of all current matters is not expected to have a material adverse impact on business, consolidated balance sheets, results of operations, comprehensive loss, or cash flows. However, the outcome of these matters is inherently uncertain. Therefore, if one or more of these matters were resolved against us for amounts in excess of management's expectations, our results of operations and financial condition, including in a particular reporting period in which any such outcome becomes probable and estimable, could be materially adversely affected.

### Item 1A. Risk Factors.

*A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider such risks and uncertainties, together with the other information contained in this report, and in our other public filings. If any of such risks and uncertainties actually occurs, our business, financial condition, or operating results could differ materially from the plans, projections, and other forward-looking statements included in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q and in our other public filings. In addition, if any of the following risks and uncertainties, or if any other risks and uncertainties, actually occurs, our business, financial condition, or operating results could be harmed substantially, which could cause the market price of our stock to decline, perhaps significantly.*

#### Risk Factors Summary

Our business is subject to a number of risks that may adversely affect our business, financial condition, results of operations, and cash flows. These risks are discussed more fully below and include, but are not limited to:

#### ***Risks Related to our Proposed Merger***

- the potential adverse impact of the announcement and pendency of the Merger on our business, financial condition and results of operations;
- the potential adverse impact of a failure to consummate the Merger within the expected timeframe or at all on our business, financial condition and results of operations;

#### ***Risks Related to Macroeconomic Conditions***

- the effect of COVID-19 on global markets, the demand for our solutions, and the demand for our customers' solutions;
- unfavorable conditions in the business software applications industry;
- the occurrence of future catastrophic events;

#### ***Risks Related to our Product and Platform Solutions***

- our substantial reliance on the continued market acceptance of our Support solution;
- developing our current solutions as well as new solutions that keep pace with the customer experience market;



- our ability to integrate new enhancements and solutions into our infrastructure;
- our reliance on application platform interfaces to integrate with third-party applications;

***Risks Related to our Industry***

- the intensely competitive nature of the customer experience industry among organizations of all sizes;
- the delayed reflection of new sales in our results due to recognizing revenue over the term of our customer contracts;
- the unpredictability of our results due to seasonality in industry buying patterns;
- our dependency on the growth of the software as a service, or SaaS, market overall;

***Risks Related to Customer Retention and Acquisition***

- our substantial reliance on our customers renewing their subscriptions and purchasing additional subscriptions;
- selling to and developing our solutions for both large organizations and small to midsized organizations;
- our ability to develop and maintain successful relationships with channel partners;
- our ability to optimize the pricing model for our solutions to maximize attraction of new customers;
- our reliance on conversion of free trials, other inbound lead generation strategies, and third-party technology partners;
- the difficulty of continuing to offer high-quality product support and customer success initiatives;
- our ability to maintain our brand;

***Risks Related to Operating and Growing a Global Business***

- quarterly fluctuations in our financial results due to various factors and increasing variability in our sales cycles;
- current macroeconomic conditions;
- scaling our sales capabilities and managing our organization to achieve acceptance of our solutions internationally;
- retaining our key employees and attracting qualified personnel, particularly in the primary regions we operate;
- our history of losses and our expectation that our revenue growth rate will decline over time;
- the ability to effectively acquire or invest in companies and to successfully integrate acquired businesses;
- maintaining compliance with export and import controls given our global business;
- our ability to secure additional financing on favorable terms to meet our future capital needs;

***Risks Related to Cybersecurity, Reliability, and Data Privacy***

- service interruptions, errors, failures, or bugs in our solutions, and improper implementation of our solutions;
- our ability to securely maintain customer data and to prevent and respond to historical and future data breaches;
- increased costs from complying with privacy and security regulation, including the General Data Protection Regulation ("GDPR") and the California Consumer Privacy Act ("CCPA");

***Risks Related to Intellectual Property Matters***

- our exposure to contractual indemnification for intellectual property infringement and third-party claims;
- our use of open source software;
- a failure to protect our intellectual property rights;

***Risks Related to Tax and Accounting Matters***

- taxing authorities which may assert we owe income, sales, value added or similar taxes, either in the future or for past amounts;
- international operations which subject us to potential tax consequences and foreign exchange rate fluctuations;
- the potential for our goodwill or intangible assets to be impaired;
- limitations on our ability to use our net operating losses to offset future taxable income;
- our reliance on third-party SaaS technologies to operate our business;

***Risks Related to Ownership of our Common Stock and our Outstanding Convertible Notes***

- volatility in our stock price separate from our operating performance and the absence of a dividend on our stock;
- high concentration of ownership among relatively few principal stockholders;
- changing laws and regulations and potential legal proceedings related to governance and public disclosure;
- anti-takeover provisions in our charter and limitation of forum to the Delaware Court of Chancery for certain state law claims and the district courts of the United States for claims arising under the Securities Act;
- dependency on favorable securities and industry analyst reports;
- pressures on cash flows resulting from servicing our outstanding debt;
- conversion features on our debt which may affect our operating results and value of our common stock;
- counterparty risk with respect to capped call transactions entered into in connection with our debt offerings; and
- accounting considerations related to interest, settlement, and expense recognition related to our outstanding debt.

### **Risks Related to Our Proposed Merger**

***The announcement and pendency of our proposed acquisition by a consortium of private equity firms could adversely impact our business, financial condition and results of operations.***

On June 24, 2022, we entered into the Merger Agreement with Parent and Merger Sub. Uncertainty about the effect of the Merger on our employees, customers, and other parties may have an adverse effect on our business, financial condition and results of operation regardless of whether the Merger is completed. These risks to our business include the following, all of which could be exacerbated by a delay in the completion of the Merger:

- the impairment of our ability to attract, retain, and motivate our employees, including key personnel;
- the diversion of significant management time and resources towards the completion of the Merger;
- difficulties maintaining relationships with customers, suppliers, and other business partners;
- delays or deferments of certain business decisions by our customers, suppliers, and other business partners;
- the inability to pursue alternative business opportunities or make appropriate changes to our business because the Merger Agreement requires us to use commercially reasonable efforts to conduct our business, in all material respects, in the ordinary course, to preserve substantially intact our business organization and material business relationships and to not engage in certain types of transactions prior to the completion of the Merger;
- litigation relating to the Merger and the costs related thereto; and
- the incurrence of significant costs, expenses, and fees for professional services and other transaction costs in connection with the Merger.

***Failure to consummate the Merger within the expected timeframe or at all could adversely impact our business, financial condition and results of operations.***

The completion of the Merger is subject to the satisfaction or waiver of certain customary mutual closing conditions, including (a) the Company Stockholder Approval, (b) the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of certain other regulatory approvals, including from the Committee on Foreign Investment in the United States, and (c) the absence of any law or order by a court or other governmental entity of competent jurisdiction restraining, enjoining or otherwise prohibiting the consummation of the Merger. The obligation of each party to consummate the Merger is also conditioned upon the other party's representations and warranties being true and correct (subject to certain customary materiality exceptions) and the other party having performed in all material respects its obligations under the Merger Agreement, and the obligation of Parent to consummate the Merger is additionally conditioned upon the absence of a material adverse effect on the Company that is continuing. There can be no assurance that these conditions will be satisfied in a timely manner or at all or that the Merger will be completed.

The Merger Agreement also includes customary termination provisions for both the Company and Parent, subject, in certain circumstances, to the payment by the Company of a termination fee of \$254 million in cash upon termination of the Merger Agreement under specified circumstances. If we are required to make this payment, doing so may materially adversely affect our business, financial condition and results of operations.

There can be no assurance that a remedy will be available to us in the event of a breach of the Merger Agreement by Parent or its affiliates or that we will wholly or partially recover for any damages incurred by us in connection with the Merger. A failed transaction may result in negative publicity and a negative impression of us among our customers or in the investment community or business community generally. Further, any disruptions to our business resulting from the announcement and pendency of the Merger, including any adverse changes in our relationships with our customers, partners, suppliers and employees, could continue or accelerate in the event of a failed transaction. In addition, if the Merger is not completed, and there are no other parties willing and able to acquire the Company at a price of \$77.50 per share or higher, on terms acceptable to us, the share price of our common stock will likely decline to the extent that the current market price of our common stock reflects an assumption that the Merger will be completed. Also, we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the Merger, for which we will have received little or no benefit if the Merger is not completed. Many of these fees and costs will be payable by us even if the Merger is not completed and may relate to activities that we would not have undertaken other than to complete the Merger.

***Litigation relating to the Merger has been filed against us and our board of directors, and additional litigation may be filed against us and our board of directors in the future, which could prevent or delay the completion of the Merger or result in the payment of damages.***

Litigation relating to the Merger has been filed against us and our board of directors, and it is possible that additional litigation by our stockholders may be filed against us and our board of directors in the future. Among other remedies, these

claimants could seek damages and/or to enjoin the Merger and the other transactions contemplated by the Merger Agreement. The outcome of any litigation is uncertain and any such lawsuits could prevent or delay the completion of the Merger and result in significant costs. Any such actions may create uncertainty relating to the Merger and may be costly and distracting to our management.

#### **Risks Related to Macroeconomic Conditions**

***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 customers. The revenue growth and potential profitability of our business depend on demand for business software applications and services generally and for customer service systems in particular. In addition, our revenue is dependent on the number of users of our solutions, which in turn is influenced by the employment and hiring patterns of our customers. To the extent that weak economic conditions cause our customers and prospective customers to freeze or reduce their hiring for personnel providing service and support, demand for our solutions may be negatively affected. Historically, during economic downturns there have been reductions in spending on information technology and customer service systems as well as pressure for extended billing terms and other financial concessions. If global economic conditions deteriorate, our customers and prospective customers may elect to decrease their information technology and customer service budgets, which would limit our ability to grow our business and negatively affect our operating results.

In particular, we expect our financial results in future periods to be negatively impacted by ongoing macroeconomic factors including a substantial risk of global recession, persistent high inflation, changing consumer behavior and labor market dynamics that have and may continue to result in substantial employee attrition. In the quarter ended June 30, 2022, we experienced a decline in gross bookings of 16% and a decline in net bookings of 42% from the quarter ended June 30, 2021. Due to these results and ongoing changing business conditions, we expect that revenue for the year ending December 31, 2022 will grow at a rate less than previously anticipated and that growth rates in subsequent periods may also be impacted.

***The Company's operations and performance depend significantly on global and regional economic conditions.***

Adverse macroeconomic conditions, including inflation, slower growth or recession, new or increased tariffs, changes to fiscal and monetary policy, tighter credit, higher interest rates, high unemployment and currency fluctuations could materially adversely affect demand for the Company's products and services. In addition, consumer confidence and spending could be adversely affected in response to financial market volatility, negative financial news, conditions in the real estate and mortgage markets, declines in income or asset values, changes to fuel and other energy costs, labor and healthcare costs and other economic factors. A downturn in the economic environment could also lead to increased credit and collectability risk on the Company's receivables, limitations on the Company's ability to issue new debt and reduced liquidity. These and other economic factors could materially adversely affect the Company's business, results of operations, financial condition and growth.

***The current economic downturn may lead to decreased demand for our products and services and otherwise harm our business and results of operations.***

Our overall performance depends, in part, on worldwide economic conditions. In recent months, we have observed increased economic uncertainty in the U.S. and abroad. Impacts of such economic weakness include:

- falling overall demand for goods and services, leading to reduced profitability;
- reduced credit availability;
- higher borrowing costs;
- reduced liquidity;
- volatility in credit, equity and foreign exchange markets; and
- bankruptcies.

These developments could lead to supply chain disruption, inflation, higher interest rates, and uncertainty about business continuity, which may adversely affect our business and our results of operations. As our customers react to global economic conditions and the potential for a global recession, we may see them reduce spending on our products and services and take additional precautionary measures to limit or delay expenditures and preserve capital and liquidity. Reductions in spending on our solutions, delays in purchasing decisions, lack of renewals, inability to attract new customers, as well as pressure for extended billing terms or pricing discounts, would limit our ability to grow our business and negatively affect our operating results and financial condition.

***Rising inflation rates could negatively impact our revenues and profitability if increases in the prices of our goods and services or a decrease in consumer spending results in lower sales. In addition, if our costs increase and we are not able to pass along these price increases to our customers, our net income would be adversely affected, and the adverse impact may be material.***

Inflation rates, particularly in the U.S., have increased recently to levels not seen in years. Increased inflation may result in decreased demand for our products and services, increased operating costs (including our labor costs), reduced liquidity, and limitations on our ability to access credit or otherwise raise debt and equity capital. In addition, the United States Federal Reserve has raised, and may again raise, interest rates in response to concerns about inflation. Increases in interest rates, especially if coupled with reduced government spending and volatility in financial markets, may have the effect of further increasing economic uncertainty and heightening these risks. In an inflationary environment, we may be unable to raise the sales prices of our products and services at or above the rate at which our costs increase, which could/would reduce our profit margins and have a material adverse effect on our financial results and net income. We also may experience lower than expected sales and potential adverse impacts on our competitive position if there is a decrease in consumer spending or a negative reaction to our pricing. A reduction in our revenue would be detrimental to our profitability and financial condition and could also have an adverse impact on our future growth.

***The COVID-19 pandemic has and may continue to cause harm to our business, results of operations, and financial condition.***

In March 2020, the World Health Organization declared the novel coronavirus and resulting COVID-19 disease a global pandemic. The COVID-19 pandemic caused adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, which have adversely affected workforces, organizations, customers, economies, and financial markets globally. In response to the pandemic, we took precautionary measures, including imposing travel restrictions for our employees, mandating a global work from home policy, and shifting customer events to virtual-only experiences. As the pandemic has evolved, we have reopened some of our offices on a staggered, region-to-region basis in accordance with local authority guidelines, while taking into account vaccine administration prevalence and infection rates. We have also continued to limit employee travel, and continue to offering virtual experiences for customer events. Operationally, we have continued to prudently manage operating expenses. Although we continue to monitor the situation and may adjust our current policies as more information and public health guidance become available, precautionary measures that have been adopted could negatively affect our customer success efforts, customer retention, sales and marketing efforts, delay and lengthen our sales cycles, affect our revenue growth rate, or create operational or other challenges, any of which could harm our business and results of operations. Additionally, our customers and potential customers may and have been exposed to similar operational considerations, resulting in significant pressures on their expenditures, and subsequently resulting in a decreased demand for our solutions.

In addition, the COVID-19 pandemic has and may continue to disrupt the operations of our customers and partners for an indefinite period of time, including as a result of travel restrictions and/or business shutdowns, all of which could negatively impact our business and results of operations, including cash flows. More generally, the COVID-19 pandemic has adversely affected economies and financial markets globally, potentially leading to prolonged and disproportionate impacts to certain industries, which could decrease technology spending and adversely affect demand for our offerings and harm our business and results of operations. Further, companies may continue to have purchasing behavior which does not match historical trends, negatively impacting our ability to forecast our results.

It is not possible for us to estimate the duration or magnitude of the adverse results of the outbreak and its effects on our business, results of operations, or financial condition at this time as the impact will depend on future developments, which are highly uncertain and cannot be predicted. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section.

***Catastrophic events may disrupt, and have disrupted, our business.***

Our corporate headquarters are located in San Francisco, California and we operate in or utilize hosting resources that are located in North America, Europe, Asia, and Australia. Key features and functionality of our solutions are enabled by third parties that are headquartered in California and operate in or utilize data centers in the United States and Europe. Additionally, we rely on our network and third-party infrastructure and enterprise applications, internal technology systems, and our website for our development, marketing, operational support, hosted services, and sales activities. In the event of a major earthquake, hurricane, or catastrophic event such as fire, pandemic, flood, power loss, telecommunications failure, cyber-attack, war, or terrorist attack, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our application development, lengthy interruptions in our solutions, breaches of data security, disruption to our customer success efforts, and loss of critical data, all of which could have an adverse effect on our future operating results.

### **Risks Related to Our Product and Platform Solutions**

***We derive, and expect to continue to derive, substantially all of our revenue and cash flows from Support or offerings such as Suite that include Support. If we fail to adapt this product to changing market dynamics and customer preferences or to maintain or achieve increased market acceptance of Support, our business, results of operations, financial condition, and growth prospects would be harmed.***

We derive, and expect to continue to derive, substantially all of our revenue and cash flows from sales of subscriptions to Support and Suite, which includes Support, or from sales of subscriptions to offerings and solutions primarily resulting from an interest in Support. As such, the market acceptance of this product solution is critical to our success. Demand for our solutions is affected by a number of factors, many of which are beyond our control, such as continued market acceptance of our solutions by customers for existing and new use cases, the timing of development and release of new product and platform solutions, features, and functionality introduced by our competitors, and growth or contraction in our addressable market. We expect that an increasing focus on the customer experience and the growth of various communications channels will continue to impact the market for our software and blur distinctions between traditionally separate systems for customer support, customer engagement and retention software, messaging, sales force automation, and other customer relationship management product and platform solutions, enabling new competitors to emerge. If we are unable to meet customer demands to improve relationships between organizations and their customers through flexible solutions designed to address all these needs or otherwise achieve more widespread market acceptance of our solutions, our business, results of operations, financial condition, and growth prospects will be adversely affected. Conversely, if the market for customer experience does not continue to increase relative to prior quarters, demand for our solutions will be negatively impacted.

***If we are not able to develop enhancements to our product and platform solutions, provide a unified and reliable experience between our solutions, or introduce new solutions and services that achieve market acceptance and that keep pace with technological developments, our business would be harmed.***

Our ability to attract new customers and increase revenue from existing customers depends in large part on our ability to enhance and improve our existing solutions and to introduce new solutions. In order to grow our business, we must research and develop solutions and services that reflect the changing nature of the customer experience, and expand beyond customer service to other areas of improving relationships between organizations and their customers or potential customers. In addition, as we develop and introduce new products and services, including those incorporating or utilizing artificial intelligence and machine learning, they may raise new, or heighten existing, technological, legal and other challenges. In order to retain our business, we must ensure that our existing solutions and services maintain the high level of reliability, security, and sophistication our customers will continue to expect, while ensuring that we provide a unified and seamless experience across our solutions. Those expectations will continue to evolve and the resources required to continue to maintain reliable and secure solutions and services, particularly as we increasingly rely on and sell offerings which incorporate multiple solutions such as the Zendesk Suite, will increase over time.

We have limited history in offering multiple product and platform solutions as part of a comprehensive customer experience solution to our customers. As we increase focus on the customer experience and increasingly seek to offer our solutions as part of a broader offering, we may discover challenges in creating a seamless, unified offering across our solutions that achieves market acceptance and grows our business. In the three months ended June 30, 2022 and 2021, our research and development expenses were 27% and 26% of our revenue, respectively. In the six months ended June 30, 2022 and 2021, our research and development expenses were 27% and 25% of our revenue, respectively. If we do not spend our research and development budget efficiently or effectively on compelling innovation and technologies, our operating results may be harmed and we may not realize the expected benefits of our strategy.

The success of any enhancement to our solutions depends on several factors, including timely completion, adequate quality testing, service reliability, and market acceptance. Any new solution or service that we develop may not be introduced in a timely or cost-effective manner, may contain defects, introduce new service reliability issues, or may not achieve the market acceptance necessary to generate sufficient revenue. If we are unable to successfully develop new solutions or services, integrate those solutions with our existing solutions, enhance our existing solutions to meet new customer requirements, or otherwise gain market acceptance, our business and operating results will be harmed. In particular, as we continue to manage operational costs, our long-term plans for the development of our products and services may be negatively impacted.

***We may not be able to integrate new product and platform solutions into our infrastructure, which could negatively impact our future sales and results of operations.***

Our business depends in part on our ability to build or acquire product and platform solutions that both complement our existing solutions and respond to our customers' needs. Our customers also expect that new solutions will integrate with existing solutions that we currently offer. This expectation has increased especially with the launch of the Zendesk Suite, which

packages multiple solutions into one offering. Our ability to successfully integrate newly developed or acquired solutions into a shared services infrastructure is unproven. Because we have a limited history in integrating newly developed or acquired solutions and the market for such solutions is rapidly evolving, it is difficult for us to predict our operating results following the integration of such solutions. If we are not able to fully integrate new solutions into our infrastructure and across multiple solutions, customer usage of our product may be disrupted, new demand for our solutions may be negatively affected if those disruptions are more broadly known, and retention of our current customers may be impacted.

***If we fail to integrate our product and platform solutions with a variety of operating systems, software applications, and hardware that are developed by others, our solutions may become less marketable, less competitive, or obsolete, and our operating results would be harmed.***

Our solutions must integrate with a variety of e-mail, messaging, software platforms, network, and hardware, and we need to continuously modify and enhance our product and platform solutions to adapt to changes in cloud-enabled hardware, software, networking, messaging, browser, and database technologies. For example, we have developed our solutions to be able to easily integrate with third-party SaaS applications and messaging platforms, including the applications of software providers that compete with us, through the interaction of application platform interfaces, or APIs. To date, we have not typically relied on a long-term written contract to govern our relationship with these providers. Instead, we are typically subject to the standard terms and conditions for application developers of such providers, which govern the distribution, operation, and fees of such software systems, and which are subject to change by such providers from time to time. To the extent that we do not have long-term written contracts to govern our relationship with these providers, we rely on the fact that the providers of such software systems continue to allow us access to their APIs to enable these customer integrations. Our business may be harmed if any provider of such software systems:

- discontinues or limits our access to its APIs;
- modifies its terms of service or other policies, including fees charged to, or other restrictions on, us or other application developers;
- changes how customer information is accessed by us or our customers;
- establishes more favorable relationships with or acquires one or more of our competitors;
- is acquired by our competitors, potentially resulting in more limited access to their systems; or
- otherwise favors its own competitive offerings over ours.

We believe a significant component of our value proposition to customers is the ability to optimize and configure our solutions to communicate with these third-party applications through our respective APIs. If we are not permitted or able to integrate with these and other third-party applications in the future, demand for our solutions could be adversely impacted and business and operating results would be harmed. In addition, we have designed mobile applications to provide access to our solutions through these devices. If we cannot provide effective functionality through these mobile applications as required by organizations and individuals that widely use mobile devices, we may experience difficulty attracting and retaining customers. Failure of our solutions to operate effectively with future infrastructure platforms and technologies could also reduce the demand for our solutions, resulting in customer dissatisfaction and harm to our business. If we are unable to respond to changes in a cost-effective manner, our solutions may become less marketable, less competitive, or obsolete, and our operating results may be negatively impacted.

#### **Risks Related to Our Industry.**

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

Pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses, or the failure of our solutions to achieve or maintain more widespread market acceptance, any of which could harm our business. The market for customer experience solutions is fragmented, rapidly evolving, and highly competitive, with relatively low barriers to entry. Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements, and we expect competition to continue to intensify in the future. Among the small to mid-sized organizations that make up a large proportion of our customers, we often compete with general use computer applications and other tools, which these organizations use to provide support and which can be deployed for little or no cost. These include shared accounts for email communication, phone banks for voice communication and text messaging, shared accounts for social messaging, text editors, and spreadsheets for tracking and management. In addition, we compete with a number of other SaaS providers with focused applications or broader suites of product offerings, which may be competitive to one or more of our product and platform solutions that our potential customers may elect to use in lieu of our solutions, and such providers may be able to offer their products at a lower price due to the focused nature of their applications, such as Freshworks Inc. and HubSpot, Inc. As a result, small to mid-sized organizations are able to switch to one of our competitors.

relatively easily. Additionally, as the barriers to entry are low into this market, new entrants or current competitors may be able to change branding, marketing, or sales strategy more quickly and effectively than us, and/or develop products that mimic our new product releases and sell those products at a low price, resulting in a decreased ability for us to increase our marketing pipeline or sales.

We face competition from in-house software systems, large integrated systems vendors, and smaller companies offering alternative SaaS applications. Many of our current and potential competitors have established marketing relationships, access to larger customer bases, pre-existing customer relationships, and major distribution agreements with consultants, system integrators, and resellers. Some existing and potential customers, particularly large organizations, have elected, and may in the future elect, to develop their own internal customer support software systems. Certain of our competitors have partnered with, or have acquired, and may in the future partner with or acquire, other competitors to offer services, leveraging their collective competitive positions, which makes it more difficult for us to compete with them. In particular, as multiproduct and platform offerings increase in prevalence, our competitors who focus on such offerings may, through organic growth or acquisition, be able to increasingly provide customizable platform solutions which would impact our ability to compete with them. As our offerings have additionally expanded to adjacent markets, such as integration of messaging into the customer experience platform, sales force automation and platform-based features and functionality, in which we may not have the operational history or familiarity, we may find it difficult to compete with established vendors in those markets. For all of these reasons, we may not be able to compete successfully against our current and future competitors or retain existing customers, which would harm our business.

With respect to larger organizations seeking to deploy a customer service software system, we have many competitors that are larger than us and which have greater name recognition, much longer operating histories, more established customer relationships, larger marketing budgets, and significantly greater resources than we do. For larger organizations, we compete with customer software systems and large enterprise software vendors such as salesforce.com, Inc. and ServiceNow, Inc., each of which may have greater operational flexibility to bundle competing products and services with other software offerings, or offer them at a lower price than our current solutions, which will negatively affect our competitiveness for our solutions. Further, other established SaaS providers not currently focused on the functionality that our solutions provide may expand their services to compete with us as well. Large enterprise software vendors additionally have a greater ability to aggressively price their product at a level below their typical selling price in order to retain their existing customers and gain market share, both within the United States and in regions across the world, decreasing our ability to compete successfully with such vendors.

***If the market for SaaS business software applications develops more slowly than we expect or declines, our business would be adversely affected.***

The market for SaaS business software applications is less mature than the market for on-premise business software applications, and the adoption rate of SaaS business software applications may be slower among subscribers in industries with heightened data security interests, business practices requiring highly customizable application software, or large employee bases requiring a high level of sophistication from their business software. Our success will depend to a substantial extent on the widespread adoption of SaaS business applications in general, and of SaaS customer service applications in particular. The expansion of the SaaS business applications market depends on a number of factors, including the cost, performance, and perceived value associated with SaaS, as well as the ability of SaaS providers to address data security and privacy concerns. If SaaS business applications do not continue to achieve market acceptance, if there is a reduction in demand for SaaS business applications caused by a lack of customer acceptance, or if there are technological challenges, weakening economic conditions, data residency, data security or privacy concerns, governmental regulation, competing technologies and products, or decreases in information technology spending, it would result in decreased revenue and our business would be adversely affected.

***We recognize revenue over the term of our customer contracts. Consequently, downturns or upturns in new sales may not be immediately reflected in our operating results and may be difficult to discern.***

We generally recognize subscription revenue from customers ratably over the terms of their contracts and a majority of our revenue is derived from subscriptions that have terms longer than one month. As a result, a portion of the revenue we report in each quarter is derived from the recognition of deferred revenue relating to subscriptions entered into during previous quarters. Consequently, a decline in new or renewed subscriptions with terms that are longer than one month in any single quarter may have a small impact on our revenue results for that quarter. However, such a decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our solutions, and potential changes in our pricing policies or rate of expansion or retention, may not be fully reflected in our results of operations until future periods. We may also be unable to reduce our cost structure in line with a significant deterioration in sales. In addition, because we believe a substantial percentage of subscriptions to our solutions are shorter than many comparable SaaS companies and because we have many variations of billing cycles, our deferred revenue may be a less meaningful indicator of our future financial results as compared to other SaaS companies. A significant majority of our costs are expensed as incurred, while revenue is recognized over the life of the agreement with the applicable customer. As a result, increased growth in the

number of our customers could continue to result in our recognition of more costs than revenue in the earlier periods of the terms of our agreements. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

***Certain of our operating results and financial metrics may be difficult to predict as a result of seasonality and usage-based factors.***

We have experienced, and expect to continue to experience in the future, seasonality in our business, and our operating results and financial condition may be affected by such trends in the future. We generally experience seasonal fluctuations in demand for our solutions and services, and believe that our quarterly sales are affected by industry buying patterns. For example, we have customers who add flexible agents when they need more capacity during busy periods and then subsequently scale back the following year. We believe that the seasonal trends that we have experienced in the past may continue for the foreseeable future, particularly as we expand our sales to larger organizations. Since a large percentage of our subscriptions are monthly, customers are able to increase and decrease the number of authorized agents for whom they require a subscription quickly and easily, thereby potentially increasing the impact of seasonality on our revenue. Further, while not significant, a portion of our revenue results is not subscription-based, such as revenue related to our Talk product or revenue related to professional services, and is primarily dependent on usage-based demand, which can be difficult to predict. Seasonality within our business may be reflected to a much lesser extent, and sometimes may not be immediately apparent, in our revenue, due to the fact that we recognize subscription revenue over the term of our agreement. To the extent we experience this seasonality, it may cause fluctuations in our operating results and financial metrics, and make forecasting our future operating results and financial metrics difficult. Additionally, we do not have sufficient experience in selling certain of our solutions to determine if demand for these services are or will be subject to material seasonality.

**Risks Related to Customer Retention and Acquisition**

***Our business depends substantially on our customers renewing their subscriptions, expanding the use of their subscriptions, and purchasing subscriptions for additional product and platform solutions from us. Any decline in our customer retention or expansion, or any failure by us to sell subscriptions to additional solutions to existing customers, would harm our future operating results.***

In order for us to maintain or improve our operating results, it is important that our customers renew their subscriptions when the initial contract term expires and add additional authorized agents or additional product and platform solutions to their customer accounts. Even though the majority of our revenue is derived from subscriptions to our solutions that have terms longer than one month, a significant portion of the subscriptions to our solutions have monthly terms. Our customers have no obligation to renew their subscriptions, and our customers may not renew subscriptions with a similar contract period or with the same or a greater number of agents. Some of our customers elect not to renew their agreements with us and it is difficult to accurately predict long-term customer retention. Because the revenue derived from our customers on contracts with monthly terms are often small and midsize organizations, and because small and midsize organizations can have liquidity and expense limitations more restrictive than large organizations, such revenue is particularly susceptible to changes in global demand arising from economic downturns. Additionally, as we continue to expand our offerings to appeal to larger enterprises and such customers agree to longer contractual terms with subscriptions to additional solutions, if and when such larger enterprise customers decide not to renew their contractual arrangements, the negative impact on our results and operations will accordingly be increasingly larger. Further, a substantial proportion of our revenue derives from, and our future success is substantially dependent on, our ability to expand our existing customers' use of our solutions by expanding the number of solutions to which such customers subscribe. This has required and will continue to require increasingly sophisticated and costly sales efforts, may not result in additional sales, and it may be difficult to predict the success of such efforts.

Further, we have seen the impact of COVID-19 vary significantly across different industries. Certain industries have seen increased demand for their products and services as the needs of the economy shift, while other industries have struggled to maintain demand for their products and services consistent with historical levels. Our ability to retain current customers or sell additional solutions to those customers has and will depend on our ability to understand the short-term and long-term impacts of COVID-19 on each industry. Because we have a limited history in understanding these impacts, our ability to adapt our sales and marketing initiatives to such changes may be uncertain and our ability to forecast rates of customer retention and expansion may be negatively impacted.

Our customer retention, our ability to sell additional product and platform solutions to existing customers, and the rate at which our existing customers purchase subscriptions to additional solutions may be impacted by a number of factors, including our customers' satisfaction with our solutions, our product support, our prices, the prices of competing software systems, the effects of global economic conditions, or reductions in our customers' spending levels. In addition, the rate at which our existing customers purchase subscriptions to additional solutions depends on a number of factors, including the perceived need



for additional solutions to build better relationships between organizations and their customers. If our customers do not renew their subscriptions, renew on less favorable terms, fail to add more agents, fail to increase use of our usage-based solutions, or fail to purchase subscriptions to additional solutions, our revenue may decline, and we may not realize improved operating results from our customer base.

***We face a number of risks in targeting larger organizations for sales of our solutions and, if we do not manage these efforts effectively, our business and results of operations could be adversely affected.***

As we target a portion of our sales efforts to larger organizations, we expect to incur high costs and long sales cycles, and we may be less effective at predicting when we will complete these sales. In this market segment, the decision to subscribe to one or more of our product and platform solutions may require the approval of a greater number of technical personnel and management levels within a potential customer's organization than we have historically encountered, and if so, these types of sales would require us to invest more time educating these potential customers on the benefits of our solutions.

The success of the broader market acceptance of our product and platform solutions depends on offering solutions designed to give organizations of all sizes the ability to deliver powerful customer experiences with a focus on solutions that have the broadest market appeal across those organizations. Larger organizations may demand more features and integration services than small to mid-sized organizations. We may not be able to devote sufficient resources to developing those features and functionality in our solutions that are exclusively in demand by large organizations, which may negatively affect our potential sales to those organizations. Further, as we continue to focus on self-serve capabilities and simplicity in buying our solutions, many of those efforts may not be effective in selling and marketing to larger organizations as those organizations may require greater customer-specific investment, which may additionally impact our potential sales to those organizations. To the extent we do invest in customer-specific investment, such investment is and will continue to be a disproportionately large focus of internal resources on a small number of customers, negatively impacting our efficient use of those resources.

We have limited experience in developing and managing sales channels and distribution arrangements for larger organizations. We may experience difficulty hiring employees with qualifications appropriate for selling to larger organizations, which could adversely affect our ability to meet expected sales targets. Further, given their generally broader international presence, selling to larger organizations also may require us to divert resources to international regions in which we may not have sufficient personnel, affecting our results of operations. Sales opportunities to larger organizations may require us to devote greater research and development, sales, marketing events, product support, and professional services resources to individual customers, resulting in increased costs and reduced profitability, and would likely lengthen our typical sales cycle, which could strain our resources. Moreover, these transactions may require us to delay recognizing portions of the associated revenue we derive from these customers until any technical or implementation requirements have been met, and larger customers may demand discounts to the subscription prices they pay for our solutions. Furthermore, because we have limited experience selling to larger organizations, our investment in marketing our solutions to these potential customers may not be successful, which could harm our results of operations and our overall ability to grow our customer base. Following sales to larger organizations, we may not fully understand the opportunities to expand usage of our solutions or to sell additional functionality within such organizations, and we may not be able to effectively predict subscription terminations, any of which could harm our results of operations.

***Our business and growth depend substantially on the success of our strategic relationships with third parties, including technology partners, channel partners, and professional services partners.***

We depend on, and anticipate that we will continue to depend on, various third-party relationships in order to sustain and grow our business. We are highly dependent upon third-party technology partners for certain critical features and functionality of our platform. For example, the features available on Zendesk Talk are highly dependent on our technology integration with products offered by Twilio Inc., the features available on Zendesk Support are highly dependent on our technology integration with products offered by Alphabet Inc., and the features available across our platform are generally dependent on our third-party hosting services and integrations with messaging services. Failure of this or any other technology provider to maintain, support, or secure its technology platforms in general, and our integrations in particular, or errors or defects in its technology, could materially and adversely impact our relationship with our customers, damage our reputation and brand, and harm our business and operating results. Any loss of the right to use any of this hardware or software could result in delays or difficulties in our ability to provide our solutions until equivalent technology is either developed by us or, if available, identified, obtained, and integrated.

For deployments of our solutions into complex technology environments and workflows, we are dependent on third-party implementation consultants to provide professional services to our customers. The failure of these third-party consultants to perform their services adequately may disrupt or damage the relationship between us and our customers, damage our brand, and harm our business.

Identifying, negotiating, and documenting relationships with strategic third parties such as technology partners and implementation providers requires significant time and resources. In addition, integrating third-party technology is complex, costly, and time-consuming. Our agreements with technology partners and implementation providers are typically limited in duration, 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 solutions or services or to prevent or reduce subscriptions to our solutions.

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

***We employ a pricing model that subjects us to various challenges that could make it difficult for us to derive sufficient value from our customers particularly because we do not have the history with our subscription or pricing models that we need to accurately predict optimal pricing necessary to attract and retain customers.***

We generally charge our customers for their use of our product and platform solutions based on the number of users they enable as ‘agents’ under their customer account, as well as the features and functionality enabled. The features and functionality we provide within our solutions enable our customers to promote customer self-service and otherwise efficiently and cost-effectively address product support requests without the need for substantial human interaction. As a result of these features, customer agent staffing requirements may be minimized and our revenue may be adversely impacted. Conversely, customers may overestimate their agent needs when they initially use our solutions, negatively affecting our ability to accurately forecast the number of agents our customers need in a period. Other than subscriptions related to the Zendesk Suite, we generally require a separate subscription to enable the functionality of each of our solutions. We are continuing to analyze and improve our pricing and packaging models as we adapt to a changing market, but we do not know whether our current or potential customers or the market in general will accept changes to those models and, if it fails to gain acceptance, our business and results of operations could be harmed. In particular, in February 2021, we released a new version of our omnichannel offering, the Zendesk Suite, which offers access to Support, Chat, Talk, Guide, Explore, and Sunshine at new, unified purchase plans with various levels of pricing for different types of organizations. While we believe that simple purchase plans will enable greater adoption of the Zendesk Suite, certain organizations, such as small or mid-sized businesses, may not want to purchase all the included solutions in the Zendesk Suite, and other organizations may want more features offered in one solution without paying for the next purchase plan level, affecting our new business, retention, and sales for additional solutions. Those purchasing decisions will be difficult to predict due to our limited experience offering the new Zendesk Suite, and we may not fully understand the impact of our pricing changes in the market. If we fail to find an optimal pricing strategy for our latest offering, our business and results of operations may be harmed. If customers do not accept our new purchase plans, we may increasingly have difficulty in our ability to attract new customers as well as our ability to retain existing customers to the extent we apply new pricing models to existing customer agreements. Our current pricing model may be either too complex, too simple, or too expensive depending on the size of the organization to which we are selling our offering. Pricing decisions may also impact the mix of adoption among our subscription plans and negatively impact our overall revenue. Moreover, larger organizations may demand substantial price concessions. As a result, in the future we may be required to reduce our prices or develop new pricing models, which could adversely affect our revenue, gross margin, profitability, financial position, and cash flow.

Finally, as the market for our solutions matures, or as new competitors introduce new solutions or services that compete with ours, we may be unable to attract new customers at the same price or based on the same pricing models as we have used historically.

Our terms of service generally prohibit the sharing of user logins and passwords. These restrictions may be improperly circumvented or otherwise bypassed by certain users and, if they are, we may not be able to capture the full value of the use of our solutions. We provide access and use of our solutions exclusively for our customers’ internal use. If customers improperly resell or otherwise make our solutions available to their customers, it may cannibalize our sales or commoditize our solutions in the market. Additionally, if a customer that has received a volume discount from us offers our solutions to its customers in violation of our terms of service, we may experience price erosion and be unable to capture sufficient value from the use of our solutions by those customers.

While our terms of service provide us the ability to enforce our terms, our customers may resist or refuse to allow us to audit their usage, in which case we may have to pursue legal recourse to enforce our rights. Any such enforcement action would require us to spend money, distract management, and potentially adversely affect our relationship with our customers.

***We are highly dependent upon free trials of our solutions and other inbound lead generation strategies to drive our sales and revenue. If these strategies fail to continue to generate sales opportunities or do not convert into paying customers, our business and results of operations would be harmed.***

We are highly dependent upon our marketing strategy of offering free trials of our solutions and other inbound lead generation strategies to generate sales opportunities. As we increasingly focus on our core strengths of simplicity, agility, and offering solutions that are easy to adopt, it will be additionally increasingly critical to maintain a simple trial experience that markets and leads to an easy adoption of our solutions. These strategies may not be successful in continuing to generate sufficient sales opportunities necessary to increase our revenue. Many early users never convert from the trial version of a solution to a paid version of such solution. We often depend on individuals within an organization who initiate the trial versions of our solutions being able to convince decision makers within their organization to convert to a paid version. Many of these organizations increasingly have complex and multi-layered purchasing requirements, especially the larger organizations that we continue to target. Furthermore, in the case of our sales force automation software and features and functionality related to our platform offering, we are increasingly pursuing decision makers that are not in the customer support organizations that we have traditionally targeted. Additionally, as we offer new, broader pricing and packaging offerings for our solutions, we may not be able to understand how our prospective customers trial and use each individual solution, negatively affecting our ability to sell additional solutions effectively to those organizations. To the extent that these users do not become, or are unable to convince others to become, paying customers, we will not realize the intended benefits of this marketing strategy and our ability to grow our revenue will be adversely affected.

***Any failure to offer high-quality product support or customer success initiatives may adversely affect our relationships with our customers and our financial results.***

In deploying and using our product and platform solutions, our customers depend on our product support team, customer success organization, and our professional services organization to resolve complex technical and operational issues. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for product support. We also may be unable to modify the nature, scope, and delivery of our product support to compete with changes in product support services provided by our competitors. Increased customer demand for product support, without corresponding revenue, could increase costs and adversely affect our operating results. Adoption of the Zendesk Suite and increasing usage by customers of multiple solutions may additionally increase demand on our product support team and customer success organizations. We may allocate resources to support such increased demand and, as a consequence, our support of any individual solution may suffer. Additionally, we may be unable to develop our customer success organization to continue to support the increasing level of complexity that our customers that are large organizations require while maintaining the same level of engagement across all customers. For example, adoption of features and functionality related to our platform offering may increase demand on our professional services organization as customers may increasingly demand platform-related features that may not currently exist.

Our sales are highly dependent on our business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality product support, or a market perception that we do not maintain high-quality product support, maintain a high complexity customer success organization, or maintain an adaptive and responsive professional services organization, could adversely affect our reputation, our ability to sell our solutions to existing and prospective customers, and our business, operating results, and financial position.

***If we are unable to develop and maintain successful relationships with channel partners, our business, operating results, and financial condition could be adversely affected.***

To date, we have been primarily dependent on our direct sales force to sell subscriptions to our product and platform solutions. Although we have developed certain channel partners, such as referral partners, resellers, and integration partners, these channels have resulted in limited revenue to date. We believe identifying, developing, and maintaining strategic relationships with additional channel partners are important to driving revenue growth for our company, and we will continue to dedicate resources to those efforts. Our agreements with our existing channel partners are non-exclusive, meaning our channel partners may offer customers the solutions of several different companies, including solutions that compete with ours. They may also cease marketing our solutions with limited or no notice and with little or no penalty. We expect that any additional channel partners we identify and develop will be similarly non-exclusive and not bound by any requirement to continue to market our solutions. If we fail to identify additional channel partners, in a timely and cost-effective manner, or at all, or are unable to assist our current and future channel partners in independently selling and deploying our solutions, our business, results of operations, and financial condition could be adversely affected. Additionally, customer retention and expansion attributable to customers acquired through our channel partners may differ significantly from customers acquired through our direct sales efforts. If our channel partners do not effectively market and sell our solutions, or fail to meet the needs of our customers, our reputation and ability to grow our business may also be adversely affected.

Sales by channel partners are more likely than direct sales to involve collectability concerns. In particular, sales by our channel partners into developing markets, and accordingly, variations in the mix between revenue attributable to sales by channel partners and revenue attributable to direct sales, may result in fluctuations in our operating results.

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

We believe that maintaining and enhancing our reputation as a differentiated and category-defining company in customer experience solutions is critical to our relationships with our existing customers and to our ability to attract new customers. The successful promotion of our brand attributes will depend on a number of factors, including our marketing efforts, our ability to continue to develop high-quality software, and our ability to successfully differentiate our product and platform solutions from competitive solutions and services. Our ability to maintain our brand will depend on ensuring we communicate our core strengths in simplicity, agility of our solutions, and easy adoption of sophisticated solutions to our prospective customers, particularly as compared to our competitors offering products to small and mid-sized organizations and other competitors offering products to larger organizations. We are and have been highly dependent upon “consumer” tactics to build our brand and develop brand loyalty, but may need to increasingly spend significant energy to develop branding to retain and increase brand recognition with our customers who are larger organizations. In addition, independent industry analysts often provide reviews of our solutions, as well as products and services offered by our competitors, and perception of our solutions in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive as compared to those of our competitors’ products and services, our brand may be adversely affected. It may also be difficult to maintain and enhance our brand, specifically following the launch of our updated corporate brand, in connection with sales through channel or strategic partners.

The promotion of our brand requires us to make substantial expenditures, and we anticipate that these expenditures will continue to increase, as our market becomes more competitive, as we expand into new markets, and as more sales are generated through our channel partners. To the extent that these activities yield increased revenue, this revenue may not offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, we may have reduced pricing power relative to competitors, and we could lose customers or fail to attract potential customers, all of which would adversely affect our business, results of operations, and financial condition.

**Risks Related to Operating and Growing a Global Business**

***Our quarterly results may fluctuate significantly from period to period, and if we fail to meet the expectations of analysts or investors, our stock price and the value of an investment in our common stock could decline substantially.***

Our quarterly financial results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly financial results fall below the expectations of investors or any securities analysts who follow our stock, the price of our common stock could decline substantially. Some of the important factors that may cause our revenue, operating results, and cash flows to fluctuate from quarter to quarter include:

- the short-term and long-term impacts of COVID-19 or any other worldwide pandemic on our business, including but not limited to a decreased demand for our solutions and services, particularly in certain industries, negative impacts on our revenue results, and an increased unpredictability in expenses and cash flow;
- our ability to attract new customers, retain and increase sales to existing customers, and satisfy our customers’ requirements;
- the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;
- the rate of expansion and productivity of our sales force;
- general economic conditions that may adversely affect either our customers’ ability or willingness to purchase additional subscriptions, delay a prospective customer’s purchasing decision, reduce the value of new subscription contracts, or affect customer retention;
- changes in our or our competitors’ pricing policies;
- the impact of security breaches, service interruptions, or other technical difficulties or reliability considerations on our solutions;
- our ability to meet the increasing expectations on product functionality of larger organizations while continuing to maintain an easily accessible solution for organizations of all sizes;
- changes in our billing and invoicing policies and customer reception of those changes;
- our investments in and our ability to successfully sell newly developed or acquired products, features, or functionality;
- increasing efforts by our customers to develop native applications as a substitute for our own;
- the timing of customer payments and payment defaults by customers;
- the timing of the grant, price of our common stock, or vesting of equity awards to employees;
- expenses such as litigation or other dispute-related settlement payments;
- changes in foreign currency exchange rates and our customers’ willingness to accept the risk of those changes; and

- the impact of new accounting pronouncements.

Many of these factors are outside of our control, and the occurrence of one or more of them might cause our revenue, operating results, cash flows, gross margin, operating margin, profitability, unearned revenue, and remaining revenue performance obligations, to vary widely. As such, we believe that quarter-to-quarter comparisons of our revenue, operating results, and cash flows may not be meaningful and should not be relied upon as an indication of future performance.

***Failure to effectively maintain and scale our sales capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our product and platform solutions.***

Increasing our customer base and achieving broader market acceptance of our product and platform solutions will depend, to a significant extent, on our ability to effectively maintain and scale our sales and marketing operations and activities. We are substantially dependent on our direct sales force to obtain certain of our new customers, including larger organizations. We plan to continue to invest in our direct sales force both domestically and internationally to increase the effectiveness of our sales motions and increase our sales capacity. During the twelve months ended June 30, 2022, our sales and marketing organization increased by approximately 570 employees to approximately 2,670 employees. There is significant competition for experienced sales and marketing professionals with the skills and technical knowledge that we require, both domestically and internationally. Our ability to achieve significant revenue growth in the future will depend, in part, on our success in recruiting, training, and retaining a sufficient number of experienced sales and marketing professionals. New hires require significant training and time before they achieve full productivity, particularly in new sales segments and territories. In territories outside the United States, attraction, recruiting and retention of our sales personnel has been and will be increasingly difficult and costly, affecting our ability to compete in such jurisdictions. Further, as organizations worldwide adjust to continuing precautions and safety measures related to decreasing the health risks of COVID-19, our ability to connect in person with our customers and potential customers may be and has been negatively impacted, resulting in delayed sales cycles.

We cannot predict whether, or to what extent, our sales will increase as we continue to invest in our sales and marketing functions or how long it will take for new personnel to become productive, continue to focus on our core strengths, and achieve broader market acceptance. Our business will be harmed if our sales and marketing efforts do not generate a significant increase in revenue.

***We depend on our executive officers and other key employees and the loss of one or more of these employees or an inability to attract and retain highly skilled employees could adversely affect our business.***

Our success depends largely upon the continued services of our executive officers and other key employees. We rely on our leadership team and on individual contributors in the areas of research and development, operations, security, sales, marketing, support, and general and administrative functions. From time to time, there may be changes in our executive management team resulting from the hiring, departure, or reorganization of our executive team, which could disrupt our business.

We do not have employment agreements with our executive officers or other key personnel that require them to continue to work for us for any specified period of time and, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers, especially our Chief Executive Officer, or other key employees globally could have an adverse effect on our business.

In addition, to execute on our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel in the San Francisco Bay Area, where our headquarters is located, and in other locations where we maintain offices, especially in Dublin, Ireland and Singapore is intense, especially for engineers experienced in designing and developing software and SaaS applications and experienced sales professionals. As organizations increasingly promote digital-first employee experiences and seek to hire across multiple jurisdictions, we will additionally face competition in hiring qualified employees in areas outside our physical offices.

We have, from time to time, experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. For example, certain domestic immigration laws restrict or limit our ability to recruit internationally. Any changes to U.S. immigration policies that restrain the flow of technical and professional talent may inhibit our ability to recruit and retain highly qualified employees. Additionally, many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached their legal obligations, resulting in a diversion of our time and resources. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived or actual value of our equity awards declines, it may adversely affect our ability to recruit and retain highly skilled employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be adversely affected.

***If we fail to effectively manage our growth and organizational change in a manner that preserves the key aspects of our 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 management, operational, and financial resources. For example, our headcount has grown from approximately 5,050 employees as of June 30, 2021 to approximately 6,540 employees as of June 30, 2022. In addition, we have established subsidiaries in Denmark, the United Kingdom, Australia, Ireland, Japan, the Philippines, Brazil, Germany, India, Mexico, and South Korea since our inception in 2007, and, as a result of acquisitions, we also have subsidiaries in Singapore, France, Poland, Portugal, and Canada. We may continue to invest in our international operations and expand into other countries in the future. We have also experienced significant growth in the number of customers, end users, transactions, and data that our solutions support. Our organizational structure is becoming more complex and we may need to scale and adapt our operational, financial, and management controls, as well as our reporting systems and procedures, to manage this complexity. Further, as our employees work from geographic areas across the globe, we will require investment of resources and close monitoring of local regulations and requirements that continually change due to events that may have a global impact, such as the shift to remote work or hybrid remote and in-office models arising from the COVID-19 pandemic, and we may experience unpredictability in our expenses, employee retention, and employee work culture. 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, simplicity in design, and attention to customer experience that has been critical 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 culture, the retention and productivity of our employees may be impacted, and the quality of our solutions and services may suffer, which could negatively affect our brand and reputation and harm our ability to retain and attract customers.

***We have a history of losses and we expect our revenue growth rate to decline. As our costs increase, we may not be able to generate sufficient revenue to achieve and sustain our profitability.***

We have incurred net losses in each year since our inception, including net losses of \$95 million and \$58 million in the three months ended June 30, 2022 and 2021, respectively, and \$162 million and \$107 million in the six months ended June 30, 2022 and 2021, respectively. We had an accumulated deficit of \$1,221 million as of June 30, 2022. For the three months ended June 30, 2022 and 2021, our revenue was \$407 million and \$318 million, respectively, representing a 28% growth rate. For the six months ended June 30, 2022 and 2021, our revenue was \$796 million and \$616 million, respectively, representing a 29% growth rate. Our historical revenue growth has been inconsistent, and should not be considered indicative of our future performance. We expect that our revenue growth rate will decline over time. We may not be able to generate sufficient revenue to achieve and sustain profitability as we also expect our costs to increase in future periods. We expect to continue to expend substantial financial and other resources on:

- development of our existing product and platform solutions or acquisition of new product and platform solutions to appeal to as many types and sizes of organizations as possible, including investments in our research and development team and improvements to the scalability, availability, and security of our solutions;
- continued international investment in an effort to increase our customer base and sales;
- investments in programs to ensure retention of current customers and expansion of use cases for our products with those customers;
- enhancements to our network operations and infrastructure;
- sales and marketing; and
- general administration, including legal, accounting, and other expenses related to being a public company.

These investments may not result in increased revenue or growth of our business. If we fail to continue to grow our revenue, our operating results and business would be harmed.

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

In the three months ended June 30, 2022 and 2021, we derived 48% and 49%, respectively, from customers located outside of the United States. In each of the six months ended June 30, 2022 and 2021, we derived 49% of our revenue from customers located outside of the United States. We are continuing to invest in our international operations as part of our growth strategy. We currently have sales personnel and sales and product support operations in certain countries across North America, Europe, Australia, Asia, and South America. To date, a limited portion of our sales has been primarily due to resellers or other channel partners. We believe our ability to convince new customers to subscribe to our solutions or to convince existing customers to renew or expand their use of our solutions is directly correlated to the level of engagement we obtain with the customer. To the extent we are unable to effectively engage with non-U.S. customers due to our limited sales force capacity and limited channel partners, we may be unable to effectively grow in international markets.

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

- economic and political conditions in each country or region and general economic uncertainty around the world;
- the need for sales representatives to be recruited, hired, and retained locally in increasing numbers of countries abroad;
- communication and integration problems related to entering new markets with different languages, cultures, and political systems, particularly in regions with a high level of such differences between each country;
- compliance with foreign privacy and security laws and regulations and the risks and costs of non-compliance;
- the need for localized software and licensing programs, including the need for localized language support and data residency requirements;
- burdens of complying with a variety of foreign laws, including laws related to marketing restrictions and other data privacy regulations;
- increased management, travel, visa compliance, infrastructure, and legal compliance costs associated with having multiple international operations;
- longer payment cycles and difficulties in enforcing contracts, collecting accounts receivable, or satisfying revenue recognition criteria, especially in emerging markets;
- differing technical standards, existing or future regulatory and certification requirements and required features and functionality;
- exposure to political developments in the United Kingdom (the “U.K.”), including the departure of the U.K. from the European Union (the “EU”) on January 21, 2021 (“Brexit”), which has created an uncertain political, economic, and regulatory environment, instability for businesses, and volatility in global financial markets and the value of foreign currencies, all of which could disrupt trade, the sale of our services, and the mobility of our employees and contractors between the U.K., EU and other jurisdictions;
- compliance with laws and regulations for foreign operations, including anti-bribery laws (such as the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.S. Travel Act, and the U.K. Bribery Act 2010), import and export controls laws, tariffs, trade barriers, economic sanctions, anti-slavery laws, and other regulatory or contractual limitations on our ability to sell our solutions in certain foreign markets, and the risks and costs of non-compliance;
- heightened risks of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact our financial results and result in restatements of our consolidated financial statements;
- fluctuations in foreign currency exchange rates and the related effect on our operating results, particularly as our customers increasingly demand less exposure to such fluctuations;
- difficulties in repatriating or transferring funds from or converting currencies in certain countries;
- requirements or preferences for domestic products;
- differing labor standards, including restrictions related to, and the increased cost of, terminating employees in some countries;
- reduced protection for intellectual property rights in some countries and practical difficulties of enforcing rights abroad;
- compliance with the laws of numerous foreign tax jurisdictions, including withholding obligations, and overlapping of different tax regimes; and
- the impact of natural disasters, diseases and pandemics, such as COVID-19, and travel restrictions and other measures undertaken by governments in response to such issues.

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

Compliance with laws and regulations applicable to our international operations substantially increases our cost of doing business in foreign jurisdictions. We may be unable to keep current with new or revised government requirements as they change from time to time. Failure to comply with these regulations could have adverse effects on our business. Additionally, in many foreign countries it is common for others to engage in business practices that are prohibited by our internal policies and procedures or U.S. or other regulations applicable to us. Although we have implemented certain policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that all of our employees, contractors, partners, and agents will comply with these laws and policies. Violations of laws or key control policies by our employees, contractors, partners, or agents could result in delays in revenue recognition, financial reporting misstatements, enforcement actions, disgorgement of profits, fines, civil and criminal penalties, damages, injunctions, other collateral consequences, or the prohibition of the importation or exportation of our solutions and services, and could adversely affect our business and results of operations.

In response to the invasion of Ukraine by Russia in February 2022, the U.S., U.K. and EU, along with others, imposed significant new sanctions and export controls against Russia and other Russian actors. Governments may continue to implement additional sanctions or take further punitive actions in the future. The sanctions imposed on Russia, any possible future punitive measures that may be implemented and any counter measures imposed by Russia, in addition to the escalating military conflict

between Ukraine and Russia and potential for conflict in the greater region or beyond could introduce additional economic volatility in the region, which may significantly impact Zendesk's business in the region. Both the conflict and related sanctions and export controls, and the resulting uncertainty, have resulted and may continue to result in the termination of customer relationships and has introduced significant uncertainty into global markets. As a result, our business and results of operations have and may continue to be adversely affected by the ongoing conflict between Ukraine and Russia, particularly if additional sanctions or export controls are imposed or the military conflict escalates to involve additional countries, which could introduce further economic instability in the EMEA region. We have operations, as well as current and potential new customers, in Europe and have an office located in Poland.

***We may acquire or invest in companies, which may divert our management's attention and result in additional dilution to our stockholders. We may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions.***

We may evaluate and consider potential strategic transactions, including acquisitions of, or investments in, businesses, technologies, services, product and platform solutions, and other assets in the future. We also may enter into relationships with other businesses to expand our solutions and services, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing, or investments in other companies.

Any acquisition, investment, or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the business strategy, sales plans, technologies, products, personnel, or operations of the acquired companies, particularly if the key personnel of the acquired company choose not to work for us, their software is not easily adapted to work with our solutions, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management, customers' experience with the acquired company prior to acquisition, or otherwise. Acquisitions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for development of our existing business. Moreover, the anticipated benefits of any acquisition, investment, or business relationship may not be realized or we may be exposed to unknown risks or liabilities.

Negotiating these transactions can be time-consuming, difficult, and expensive, and our ability to complete these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if announced, may not be completed. For one or more of these transactions, we may:

- issue additional equity securities that would dilute our existing stockholders;
- use cash that we may need in the future to operate our business;
- encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures;
- incur large charges or substantial liabilities;
- incur debt on terms unfavorable to us or that we are unable to repay;
- divert our resources to understand and comply with new jurisdictions if such acquired company is in a new country; and/or
- become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges.

***Our financial results may fluctuate due to increasing variability in our sales cycles.***

We plan our expenses based on certain assumptions about the length and variability of our sales cycle. These assumptions are based upon historical trends for sales cycles and conversion rates associated with our existing customers, many of whom to date have been small to midsized organizations that make purchasing decisions with limited interaction with our sales or other personnel. As we continue to sell to larger organizations, we expect our sales cycles to those organizations to lengthen and become less predictable. This may adversely affect our financial results. Factors that may influence the length and variability of our sales cycle include:

- the competitive nature of evaluation and purchasing processes;
- the need to educate prospective customers about the uses and benefits of our product and platform solutions;
- the discretionary nature of purchasing and budget cycles and decisions;
- announcements or planned introductions of new solutions, features, or functionality by us or our competitors; and
- lengthy purchasing approval processes.

If we are unable to close one or more expected significant transactions with these customers 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.

Additionally, the COVID-19 pandemic has, and may continue to, put pressure on global economic conditions and overall spending for customer experience solutions, and may cause our customers or their customers to modify spending priorities or



delay or abandon purchasing decisions, thereby lengthening sales cycles, and may make it difficult for us to forecast our sales and operating results. Further, as the pandemic continues, organizations that previously delayed their purchasing decision may later purchase our solutions on a timeline not consistent with historical patterns, negatively impacting our ability to accurately forecast such decisions and sales results.

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

We incorporate encryption technology into our solutions that is enabled through mobile applications and other software we may be deemed to export, and therefore we may be subject to U.S. export controls and economic sanctions regulations. These encryption solutions and the underlying technology may be exported outside of the U.S. only with the required export authorizations, including by license, a license exception, or other appropriate government authorizations. We previously deployed mobile applications prior to obtaining the required export authorizations. Accordingly, we have not fully complied with applicable encryption controls in U.S. export administration regulations.

Furthermore, U.S. export controls laws and economic sanctions prohibit the shipment or provision of certain products and services to countries, governments, territories, and persons targeted by U.S. sanctions. While we are currently taking precautions to prevent our solutions from being enabled by persons targeted by U.S. sanctions, including IP blocking and periodic customer screening against U.S. government lists of prohibited persons, such measures may be circumvented. Given the technical limitations in developing measures that will prevent access to internet-based services from particular geographies or by particular individuals, we have previously identified and expect we will continue to identify customer accounts for our solutions that we suspect originate from countries or parties which are subject to U.S. sanctions restrictions.

We are aware that trials of and subscriptions to our solutions have been initiated by persons and organizations in countries that are the subject of U.S. embargoes, or to persons and organizations supporting customers in countries that are the subject of U.S. embargoes, or to parties which are subject to targeted export and sanctions restrictions. Our provision of services in these instances was likely in violation of U.S. export controls and sanctions laws. We have terminated the accounts of such organizations as we have become aware of them, implemented certain measures designed to prevent future unauthorized access by such persons and organizations, and filed voluntary self-disclosures with the U.S. Department of Commerce's Bureau of Industry and Security, or BIS, and the U.S. Department of Treasury's Office of Foreign Assets Control, or OFAC, concerning prior potential violations. With respect to these resolved matters, each of BIS and OFAC completed its investigations, and no monetary penalties or other sanctions were imposed. With respect to future matters, there is the potential for the government to impose fines or sanctions.

If we are found to be in violation of U.S. sanctions or export controls laws, it could result in fines or penalties for us and for individuals, including civil penalties of approximately \$300,000 or twice the value of the transaction, whichever is greater, per violation, and in the event of conviction for a criminal violation, fines of up to \$1 million and possible incarceration for responsible employees and managers for willful and knowing violations.

If our channel partners fail to obtain appropriate import, export, or re-export licenses or permits, we may also be adversely affected, through reputational harm as well as other negative consequences, including government investigations and penalties. We presently incorporate sanctions compliance requirements in our channel partner agreements for our solutions. Complying with export controls and sanctions regulations for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Failure to comply with export controls and sanctions regulations for a particular sale may expose us to government investigations and penalties, which could have an adverse effect on our business, operating results, and financial condition.

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

***We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.***

We have funded our operations since inception primarily through customer payments for subscription services, the issuance of our convertible senior notes, and public and private equity financings. In the future, we may require additional capital to respond to business opportunities, challenges, acquisitions, a decline in the level of subscriptions for our solutions, or

unforeseen circumstances. We may not be able to timely secure additional debt or equity financing on favorable terms, or at all. Any additional debt financing obtained by us could involve restrictive covenants relating to financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Additionally, we may not be able to generate sufficient cash to service any debt financing obtained by us, which may force us to reduce or delay capital expenditures or sell assets or operations. If we raise additional funds through further issuances of equity, convertible debt securities, or other securities convertible into equity, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences, and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us, when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

**Risks Related to Cybersecurity, Reliability, and Data Privacy.**

***Our network and computer systems have been breached in the past. In light of prior incidents, and in the event that we are subject to any future breaches or we learn that the extent of prior breaches are more significant than is currently known, our solutions may be perceived as insecure, we may lose existing customers or fail to attract new customers, and we may incur significant liabilities.***

The continued growth in sales of our services and solutions and customer retention are increasingly dependent on the trust of existing customers in and the perception by potential customers of the secure and reliable use of our solutions. As we develop our product and platform solutions to reflect our core strengths of simplicity, agility, and transparency in the customer experience for organizations of all sizes, we will continue to focus on developing a product and information security program that minimizes vulnerabilities and protects our customers' data. If we fail to meet our customers' expectations in maintaining that trust, our customer retention will decrease, our perception in the market will be harmed, and our results of operations will be negatively affected.

Use of our product and platform solutions involves the storage, transmission, and processing of our customers' proprietary data, including personally identifiable information and other sensitive data regarding their customers or employees. Unauthorized access to, or disclosure, compromise, destruction, alteration or corruption of, such information or security breaches of our solutions, or our service providers' solutions, could result in the loss of data, loss of intellectual property or trade secrets, loss of business, severe reputational damage adversely affecting customer and investor confidence, disruption to our business, regulatory investigations and orders, litigation, or indemnity obligations, or other legal, regulatory, and financial exposure and liability. If our network or computer systems are breached or unauthorized access to customer data is otherwise obtained, we may be held responsible for damages for contract breach, or be subjected to penalties for violation of applicable laws and regulations and we could incur significant costs for remediation that may include liability for stolen assets or information and repair of system damage that may have been caused, incentives offered to customers or other business partners in an effort to maintain business relationships after a breach, and other liabilities. Furthermore, security breaches of our solutions could make it easier for malicious third parties to discover vulnerabilities in such solutions or allow our competitors to create similar solutions with decreased development effort, harming our competitive position. Notifications related to a security breach regarding or pertaining to any of such service providers have impacted and could in the future impact our reputation, harm customer confidence, hurt our sales and expansion into new markets, or cause us to lose existing customers.

We have incurred, and expect to continue to incur, significant expenses to prevent, investigate, and remediate security breaches and vulnerabilities, including deploying additional personnel and protection technologies, implementing increasingly mature processes and programs, hiring and training employees, and engaging third-party experts and consultants. Our errors and omissions insurance coverage covering certain security and privacy damages and claim expenses may not be sufficient to compensate for all liability related to or arising out of any security incidents.

We have previously experienced significant data breaches and security incidents. We have also previously identified major vulnerabilities of our security measures and the security measures deployed by third-party vendors upon which we rely, and our solutions have been and may continue to be at risk for future breaches as a result of third-party action against ourselves or our vendors, employee, vendor, or contractor error, malfeasance, or other factors. In light of prior incidents, and in the event that we are subject to any future breaches or we learn that the extent of prior incidents is more significant than is currently known, our solutions may be perceived as insecure, we may lose existing customers or fail to attract new customers, and we may incur significant liabilities.

In addition, new solutions and services, including newly acquired solutions and services, may rely on systems, networks, personnel, equipment, and vendors that may initially be different from those utilized in connection with our existing solutions and which may not have been subject to the same security reviews and assessments as those used to provide our existing solutions. Any failure to complete these security reviews and assessments and to implement improvements to the security

measures deployed to protect our new solutions in a timely manner could increase our risk of a security breach with respect to these solutions, which would harm our reputation and our business as a whole.

Cyber incidents have been increasing in sophistication and frequency, increasing the difficulty of detecting and successfully defending against them. Such incidents can include third parties gaining access to employee or customer data using stolen or inferred credentials, computer malware, exploiting vulnerabilities in hardware, software, or other infrastructure, social engineering techniques, viruses, spamming, phishing attacks, ransomware, card skimming code, and other deliberate attacks and attempts to gain unauthorized access. Moreover, we may be at risk due to the increased frequency of sophisticated cyber-attacks coordinated by foreign nation states. For example, the ongoing conflict between Russia and Ukraine may result in a heightened threat environment and create unknown cyber risks, including increased risk of retaliatory cyber-attacks from Russian actors against U.S.-based companies. Additionally, our continued use of remote work environments and virtual platforms may also increase our cybersecurity vulnerabilities and risks. Because the techniques used and vulnerabilities exploited to obtain unauthorized access to or to sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or vulnerabilities or to implement adequate preventative measures. We may also experience security breaches that may remain undetected for an extended period.

Data security is a critical competitive factor in our industry, therefore, we make numerous statements in our legal documents, public facing documents, privacy policies, terms of service, and data processing agreements, through our certifications to privacy standards, and in our marketing materials, providing assurances about the security of our solutions, including detailed descriptions of security measures we employ. Should any of these statements be untrue or become untrue, even due to circumstances beyond our reasonable control, we may face claims of misrepresentation or deceptiveness by the U.S. Federal Trade Commission, state and foreign regulators, and private litigants.

***Interruptions or performance problems associated with our technology and infrastructure may adversely affect our business and operating results.***

Our continued growth depends in part on the ability of our existing and potential customers to access our solutions at any time and within an acceptable amount of time. Our solutions are proprietary, and we rely on the expertise of members of our engineering, operations, and software development teams for their continued performance. We have experienced, and may in the future continue to experience, disruptions, outages, and other performance problems due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints due to an overwhelming number of users simultaneously accessing our solutions, distributed denial of service attacks, or other security related incidents, which may affect and have affected our perception of reliability with customers. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve our performance, especially during peak usage times and as our solutions become more complex and our user traffic increases. If any of our solutions are unavailable or if our users are unable to access our solutions within a reasonable amount of time or at all, impacted existing customers may decide to not renew or expand usage of our solutions, and new customers who hear of such disruptions may as a result decide to not purchase our solutions, negatively affecting our business. In addition, a significant portion of our infrastructure does not implement multi-region data replication. Therefore, in the event of any of the factors described above, or certain other failures of our infrastructure, customer data may be and have been permanently lost. Moreover, some of our customer agreements and certain subscription plans include performance guarantees and service level standards that obligate us to provide credits or termination rights in the event of a significant disruption in our services. To the extent that we do not effectively address capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and operating results may be adversely affected.

***We rely substantially on third-party managed hosting services to support our operations and disruption or interference in such service may negatively impact our business.***

Given that we are significantly reliant on third-party managed hosting services, any significant disruption of or interference in our use of such services will negatively impact our operations and customer satisfaction. Third-party managed hosting services may additionally take actions beyond our control that could seriously harm our business, including discontinuing or limiting our access to the service, increasing price terms, including establishing more favorable relationships or pricing terms with one or more of our competitors, maintaining control over the pricing models of those hosting services for when customers experience unique spikes in demand and usage, terminating or seeking to terminate the contractual relationship altogether, or modifying or interpreting its terms of service or other policies in a manner that impacts our ability to run our businesses and operations. Different types of challenges may arise from our various solutions' usage of third-party hosting services, and if we are not able to provide a seamless experience contemporaneously across our solutions, our reputation and perception of reliability may be negatively impacted, and our customer retention and prospective business may be harmed.

We have made and will continue to make substantial expenditures for third-party managed hosting services to support our growth and provide enhanced levels of service to our customers. If costs associated with third-party managed hosting services utilized to support our growth are greater than expected, the negative impact on our operating results would likely exceed our initial expectations.

***Domestic and international privacy and data security concerns and laws could result in additional costs and liabilities to us or inhibit sales of our solutions.***

The regulatory framework for privacy and security concerns and laws worldwide are rapidly evolving and are likely to remain uncertain for the foreseeable future. Many federal, state, and foreign government bodies and agencies have adopted, or are considering adopting, laws and regulations regarding the collection, use, and disclosure of personal information. In the United States, these include rules and regulations promulgated under the authority of federal agencies and state attorneys general and consumer protection agencies. Certain state laws may be more stringent or broader in scope, or offer greater individual rights, with respect to sensitive and personal information than federal or other state laws, and such laws may differ from each other, which may complicate compliance efforts. For example, in 2018, California enacted the California Consumer Privacy Act, or CCPA, which went into effect in January 2020 and became enforceable by the California Attorney General in July 2020. The CCPA established certain transparency requirements and individual rights and, among other things, requires companies covered by the legislation to provide new disclosures to California consumers and afford such consumers new rights with respect to their personal information, including the right to request deletion of their personal information, the right to receive the personal information on record for them, the right to know what categories of personal information generally are maintained about them, as well as the right to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches that result in the loss of personal information. This private right of action may increase the likelihood of, and risks associated with, data breach litigation.

Additionally, a new California ballot initiative, the California Privacy Rights Act, or CPRA, was passed in November 2020. Effective on January 1, 2023, the CPRA imposes additional obligations on companies covered by the legislation and will significantly modify the CCPA, including by expanding consumers' rights with respect to certain sensitive personal information. The CPRA also creates a new state agency that will be vested with authority to implement and enforce the CCPA and the CPRA. The effects of the CCPA and the CPRA are potentially significant and may require us to modify our data collection or processing practices and policies and to incur substantial costs and expenses in an effort to comply and increase our potential exposure to regulatory enforcement and/or litigation.

Certain other state laws impose similar privacy obligations and we also anticipate that more states will increasingly enact legislation similar to the CCPA. The CCPA has prompted a number of proposals for new federal and state-level privacy legislation and in some states efforts to pass comprehensive privacy laws have been successful. For example, on March 2, 2021, Virginia enacted the Consumer Data Protection Act, or CDPA. The CDPA will become effective January 1, 2023. The CDPA will regulate how businesses (which the CDPA refers to as "controllers") collect and share personal information. While the CDPA incorporates many similar concepts of the CCPA and CPRA, there are also several key differences in the scope, application, and enforcement of the law that will change the operational practices of controllers. The new law will impact how controllers collect and process personal sensitive data, conduct data protection assessments, transfer personal data to affiliates, and respond to consumer rights requests.

Also, on July 8, 2021, Colorado's governor signed the Colorado Privacy Act, or CPA, into law. The CPA is rather similar to Virginia's CDPA but also contains additional requirements. The new measure applies to companies conducting business in Colorado or who produce or deliver commercial products or services intentionally targeted to residents of the state that either: (1) control or process the personal data of at least 100,000 consumers during a calendar year; or (2) derive revenue or receive a discount on the price of goods or services from the sale of personal data and process or control the personal data of at least 25,000 consumers.

Moreover, on March 24, 2022, Utah's governor signed the Utah Consumer Privacy Act, or UCPA, into law. The UCPA will take effect on December 31, 2023. With the UCPA, which is largely based on Virginia's CDPA, Utah became the fourth state to enact a comprehensive privacy law. A number of additional other states have proposed bills for comprehensive consumer privacy laws and it is quite possible that certain of these bills will pass. The existence of comprehensive privacy laws in different states in the country, if enacted, will add additional complexity, variation in requirements, restrictions and potential legal risk, require additional investment of resources in compliance programs, impact strategies and the availability of previously useful data, and has resulted in and will result in increased compliance costs and/or changes in business practices and policies.

Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal framework with which we or our customers must comply. In May 2018, the European General Data Protection Regulation, or GDPR, came into effect and established requirements applicable to the handling of personal data and may result in fines up to €20 million or up to 4% of annual global turnover in the preceding financial year, whichever is higher, and other administrative

penalties. Compliance with GDPR has and will continue to require valuable management and employee time and resources. In many European jurisdictions, enforcement actions and consequences for non-compliance are also rising.

In July 2020, the Court of Justice of the EU (the "CJEU"), in Case C-311/18 (Data Protection Commissioner v Facebook Ireland and Maximilian Schrems or Schrems II) invalidated the Privacy Shield Framework (the "Privacy Shield"), as a means for legitimating the transfer of personal data from the EU to the U.S., on the grounds that the Privacy Shield failed to offer adequate protections to EU personal data transferred to the U.S. We have in the past relied on various transfer safeguards, including the Privacy Shield, to legitimize data transfers from the EU to the U.S. The CJEU, in the same decision, deemed that the Standard Contractual Clauses, or SCCs, remain valid. However, the CJEU ruled that transfers made pursuant to the SCCs need to be assessed on a case-by-case basis taking into account the legal regime applicable in the destination country, and required businesses to assess whether supplementary measures that provide privacy protections additional to those provided under SCCs need to be implemented to ensure an essentially equivalent level of data protection to that afforded in the EU. Subsequent guidance published by the European Data Protection Board, or EDPB, in June 2021 described what such supplementary measures must be, and stated that businesses should avoid or cease transfers of personal data if, in the absence of supplementary measures, equivalent protections cannot be afforded. Additionally, the EDPB guidance clarified that the CJEU's requirements regarding the SCCs also apply to other transfer mechanisms, such as the Binding Corporate Rules, which serve as Zendesk's primary mechanism to legitimize data transfers from the EU to other jurisdictions, including the U.S. In June 2021, the European Commission published new versions of the SCCs, which seek to address items identified by the CJEU's Schrems II decision and provide further details regarding the transfer assessments that the parties are required to conduct when implementing the new SCCs. The new SCCs must be used for relevant new data transfers from September 27, 2021; existing SCCs arrangements must be migrated to the new SCCs by December 27, 2022. Most recently, on March 25, 2022, the EU Commission and the US White House announced that an agreement on Privacy Shield 2.0 has been reached. However, it is too soon to tell how the future of Privacy Shield 2.0 will evolve and what impact it will have on our cross-border activities.

Outside of the EU, the Swiss data protection authority determined the Swiss-U.S. Privacy Shield framework was no longer a valid mechanism for Swiss-U.S. data transfers. On August 27, 2021, the Swiss Federal Data Protection and Information Commissioner (FDPIC) announced that the new EU SCCs could be relied upon to legitimize transfers of personal data out of Switzerland to third countries that have not been deemed to provide "adequate" protection to personal data. The new EU SCCs must be used for any new contract entered into as of September 27, 2021 and implemented in existing contracts that incorporate the prior version of the SCCs by January 1, 2023. Additionally, like the GDPR, U.K. data protection law restricts personal data transfers outside the U.K. to countries not regarded by the U.K. as providing adequate protection, like the U.S. The Information Commissioner's Office, or ICO, has recently introduced new mechanisms for international transfers of personal data originating from the U.K. (an International Data Transfer Agreement, or IDTA, along with a separate addendum to the EU SCCs), which are in force as of March 21, 2022, to replace the old form EU SCCs for U.K. transfers. The new IDTA or the U.K. addendum must be used for any new contract entered into as of September 21, 2022 and implemented in existing contracts that incorporate the prior version of the SCCs by March 21, 2024. We will be required to implement these new safeguards when conducting cross-border data transfers and doing so will require significant effort and cost. These and other future developments regarding the flow of data across borders could increase the cost and complexity of delivering our services in some markets and may lead to governmental enforcement actions, litigation, fines, and penalties or adverse publicity, which could adversely affect our business and financial position.

Jurisdictions outside of Europe are also considering and/or enacting comprehensive data protection legislation. For example, as of August 2020, the Brazilian General Data Protection Law imposes requirements similar to GDPR on products and services offered to users in Brazil. Cross-border data transfers and other future developments regarding local data residency could increase the cost and complexity of delivering our services in some markets and may lead to governmental enforcement actions, litigation, fines, and penalties or adverse publicity, which could adversely affect our business and financial position, could greatly increase our cost of providing our products and services, require significant changes to our operations, or even prevent us from offering certain services in specific jurisdictions.

In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or contractually apply to us. Further, our customers or potential customers may require us to comply with more stringent privacy and data security contractual requirements or decide not to do business with us. For example, some of our customers or potential customers who do business in the EU may require us to host all personal data within the EU and may decide to do business with one of our competitors who hosts personal data within the EU instead of doing business with us. Particularly in this regulatory environment, if we or other SaaS providers experience data security incidents, loss of customer data, disruptions in delivery, or other problems, the market for SaaS business applications, including our solutions, may be negatively affected.

We also continue to see jurisdictions imposing data localization laws, which may require personal information of citizens of a jurisdiction to be, among other data processing operations, initially collected, stored, and modified locally within such jurisdiction. These regulations may deter customers from using services such as ours, and may inhibit our ability to expand into those markets or prohibit us from continuing to offer services in those markets without significant additional costs.

Because the interpretation and application of many privacy and data protection laws, commercial frameworks, and standards are uncertain, it is possible that these laws, frameworks, and standards may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our solutions. If so, in addition to the possibility of fines, lawsuits, breach of contract claims, and other claims and penalties, we could be required to fundamentally change our business activities and practices or modify our solutions, which could have an adverse effect on our business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable privacy and security or data security laws, regulations, and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business.

Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our customers may limit the use and adoption of, and reduce the overall demand for, our solutions. Privacy and data security concerns, whether valid or not valid, may inhibit market adoption of our solutions, particularly in certain industries and foreign countries.

***Real or perceived errors, failures, or bugs in our solutions could adversely affect our operating results and growth prospects.***

Because our solutions are complex, undetected errors, failures, vulnerabilities, or bugs may occur, especially when updates are deployed. Our solutions are often used in connection with large-scale computing environments with different operating systems, system management software, equipment, and networking configurations, which may cause errors or failures of our solutions or other aspects of the computing environment into which they are deployed. In addition, deployment of our solutions into complicated, large-scale computing environments may expose undetected errors, failures, vulnerabilities, or bugs in our solutions. We have discovered, and expect to continue to discover, software errors, failures, vulnerabilities, and bugs in our solutions, some of which have been or may only be discovered and remediated after deployment to customers. Real or perceived errors, failures, vulnerabilities, or bugs in our solutions could result in negative publicity, loss of or delay in market acceptance of our solutions, loss of competitive position, or claims by customers for losses sustained by them. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem.

***Incorrect or improper implementation or use of our product and platform solutions could result in customer dissatisfaction and negatively affect our business, results of operations, financial condition, and growth prospects.***

Our product and platform solutions are deployed in a wide variety of technology environments and into a broad range of complex workflows. Increasingly, our solutions have been, and will continue to be, integrated into large-scale, complex technology environments and specialized use cases, and we believe our future success will depend on our ability to increase use of our solutions in such deployments. We often assist our customers in implementing our solutions, but many customers attempt to implement deployments, including complex deployments, themselves. If we or our customers are unable to implement our solutions successfully, or are unable to do so in a timely manner, customer perceptions of our solutions and of our company may be impaired, our reputation and brand may suffer, and customers may choose not to renew or expand the use of our solutions.

Our customers and third-party partners may need training in the proper use of our solutions to maximize their potential. If our solutions are not implemented or used correctly or as intended, inadequate performance may result. Because our customers rely on our solutions to manage a wide range of operations and to drive a number of their internal processes, the incorrect or improper implementation or use of our solutions, our failure to train customers on how to efficiently and effectively use our solutions, or our failure to provide adequate product support to our customers, may result in negative publicity or legal claims against us. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for additional subscriptions to our solutions.

**Risks Related to Intellectual Property Matters**

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

Our agreements with customers and other third parties may include indemnification or other provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, or other liabilities relating to or arising from our solutions or other acts or omissions. The term of these contractual provisions often survives termination or expiration of the applicable agreement. Large indemnity payments or damage claims from contractual breach could harm our business, operating results, and financial condition. From time to time, customers require us to indemnify or otherwise be liable to them for breach of confidentiality or failure to implement adequate security measures with respect to their data stored, transmitted, or processed by our product and

platform solutions. Although we normally contractually limit our liability with respect to such obligations, we may still incur substantial liability related to them. Any dispute with a customer with respect to such obligations could have adverse effects on our relationship with that customer and other current and prospective customers, reduce demand for our solutions, and harm our business and operating results.

***Our use of “open source” software could negatively affect our ability to sell our solutions and subject us to possible litigation.***

We use open source software in our solutions and expect to continue to use open source software in the future. We may face claims from others claiming ownership of, or seeking to enforce the terms of, an open source license, including by demanding release of the open source software, derivative works, or our proprietary source code that was developed using such software. These claims could also result in litigation, require us to purchase a costly license, or require us to devote additional research and development resources to change our solutions, any of which would have a negative effect on our business and operating results. In addition, if the license terms for the open source software we utilize change, we may be forced to reengineer our solutions or incur additional costs. Although we have implemented policies to regulate the use and incorporation of open source software into our solutions, we cannot be certain that we have not incorporated open source software in our solutions in a manner that is inconsistent with such policies.

***Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.***

Our success and ability to compete depend in part upon our intellectual property. We currently have fourteen issued patents and have a limited number of pending patent applications, none of which may result in an issued patent. We rely on copyright, trade secret, and trademark laws, patents, and confidentiality or license agreements with our employees, customers, partners, and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. Our failure to secure, protect, and enforce our intellectual property rights could adversely affect our brand and adversely impact our business.

***We have been, and may in the future be, sued by third parties for alleged infringement of their proprietary rights.***

There is considerable patent and other intellectual property development activity in our industry. Our future success depends in part on not infringing upon the intellectual property rights of others. From time to time, our competitors or other third parties have claimed, and may in the future claim, that we, our solutions or our underlying technology are infringing upon or otherwise violating their intellectual property rights, and we may be found to be infringing upon or violating such rights. We may be unaware of the intellectual property rights of others that may cover some or all of our technology. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering one or more of our solutions, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or business partners in connection with any such litigation and to obtain licenses, modify our solutions, or refund subscription fees, which could further exhaust our resources. In addition, we may incur substantial costs to resolve claims or litigation, whether or not successfully asserted against us, which could include payment of significant settlement, royalty, or license fees, modification of our solutions, or refunds to customers of subscription fees. Even if we were to prevail in the event of claims or litigation against us, any claim or litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and other employees from our business operations. Such disputes could also disrupt our solutions, adversely impacting our customer satisfaction and ability to attract customers.

**Risks Related to Tax and Accounting Matters**

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

We do not collect sales and use, value added, or similar taxes in all jurisdictions in which we have sales, based on our understanding that such taxes are not applicable. Sales and use, value added, and similar tax laws and rates vary greatly by

jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties, and interest, and we may be required to collect such taxes in the future. Such tax assessments, penalties, and interest, or future requirements, may adversely affect our results of operations.

***Our international operations subject us to potentially adverse tax consequences.***

We were founded in Denmark in 2007 and were headquartered in Denmark until we reincorporated in Delaware in 2009. Today, we generally conduct our international operations through subsidiaries and report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships and transactions are subject to complex regulations, including but not limited to transfer pricing regulations administered by taxing authorities in various jurisdictions. Our tax returns are generally subject to audit and/or further examination by taxing authorities and the relevant taxing authorities have and will disagree with our transfer pricing practices and procedures, including our determinations as to the value of assets sold or acquired or income and expenses attributable to specific jurisdictions or transactions. If our positions were not sustained, we could be required to pay additional taxes, interest, and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows, and lower overall profitability of our operations.

Additionally, tax laws are dynamic and subject to change as new laws are passed and new interpretations of the law are issued or applied. The United States continuously enacts tax legislation, including regulations related to the significant tax reform legislation enacted in 2017, and certain tax provisions may potentially adversely affect us in the future. For example, U.S. President Joseph Biden's plan to increase the U.S. federal corporate income tax rate could materially increase the amount of taxes we owe, thereby negatively impacting our results of operations as well as our cash flows from operations. Further, regulations issued under the "base erosion and anti-abuse tax" provision ("BEAT") eliminate the deduction of certain base-erosion payments made to related foreign corporations and impose a minimum tax under certain circumstances. We expect that our applicable revenues will exceed the revenue threshold above which this tax applies for the year ending December 31, 2022, and therefore we expect we will have to include the tax impacts of BEAT, which could be material, in our consolidated financial statements for the year ending December 31, 2022, and potentially for future fiscal years. We are currently undertaking tax planning strategies that are expected to reduce or eliminate the potential tax impact under these new regulations. Additionally, the application of these rules could further adversely impact our effective tax rate by limiting our ability to deduct certain expenses in our current and future taxable years. In addition, governmental tax authorities are increasingly scrutinizing the tax positions of companies. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, are actively considering changes to existing tax laws that, if enacted, could increase our tax obligations in countries where we do business. If U.S. or other foreign tax authorities change applicable tax laws, our overall taxes could increase, and our business, financial condition, or results of operations may be adversely impacted.

***If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.***

We review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. As of June 30, 2022, we had a net balance of \$194 million of goodwill and intangible assets related to business acquisitions. An adverse change in market conditions, particularly a change resulting in a significant decrease in our share price, or if such change has the effect of changing one of our critical assumptions or estimates, could result in a change to the estimation of fair value that could result in an impairment charge to our goodwill or intangible assets. Any such charges may have a material negative impact on our operating results.

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

As of December 31, 2021, we had federal and state net operating loss carryforwards, or NOLs, of \$1,601 million and \$665 million, respectively, due to prior period losses. In general, under Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), a corporation that undergoes an "ownership change" (generally defined as a greater than 50-percentage-point cumulative change (by value) in the equity ownership of certain stockholders over a rolling three-year period) is subject to limitations on its ability to utilize its NOLs to offset future taxable income. Our existing NOLs may be subject to limitations arising from previous ownership changes, including in connection with our initial public offering or our follow-on public offering. Future changes in our stock ownership, some of which are outside of our control, could result in an ownership change under Section 382 of the Code. Furthermore, our ability to utilize NOLs of companies that we may acquire in the future may be subject to limitations. Our NOLs generated before fiscal year 2018 are subject to a 20-year carryover limitation and may expire if unused within that period. There is also a risk that due to legislative changes, such as suspensions on the use of NOLs, or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to offset future income tax liabilities. Our NOLs may also be subject to limitations under state law. For example, California recently enacted legislation suspending the use of NOLs for taxable years 2020, 2021 and 2022 for many taxpayers. In addition, under the Tax Cuts and Jobs Act of 2017,



as modified by the Coronavirus Aid, Relief, and Economic Security Act, the amount of NOLs that we are permitted to deduct in any taxable year is limited to 80% of our taxable income in such year, where taxable income is determined without regard to the NOL deduction itself. For these reasons, we may not be able to realize a tax benefit from the use of our NOLs, whether or not we attain profitability.

***Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.***

GAAP is subject to interpretation by FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change. For example, on January 1, 2018, we adopted ASC Topic 606, "Revenue from Contracts with Customers," which changed our accounting policies regarding revenue recognition and incremental costs to acquire customer contracts. We also adjusted our consolidated financial statements from amounts previously reported to reflect the adoption. Certain other standards that become effective in the future may have a material impact on our consolidated financial statements. See Note 1 of the Notes to our Condensed Consolidated Financial Statements for information regarding the effect of new accounting pronouncements on our consolidated financial statements. Any difficulties in implementing these standards could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

***We depend and rely upon SaaS technologies from third parties to operate our business and interruptions or performance problems with these technologies may adversely affect our business and operating results.***

We rely heavily on hosted SaaS applications from third parties in order to operate critical functions of our business, including billing and order management, enterprise resource planning, and financial accounting processes. If these services become unavailable due to extended outages or interruptions, or because they are no longer available on commercially reasonable terms, our expenses could increase, our ability to manage finances could be interrupted, and our processes for managing sales of our solutions and supporting our customers could be impaired until equivalent services, if available, are identified, obtained, and implemented, all of which could adversely affect our business.

***We face exposure to foreign currency exchange rate fluctuations.***

As our international operations expand, our exposure to the effects of fluctuations in currency exchange rates grows. While we have primarily transacted with customers in U.S. dollars historically, we expect to continue to expand the number of transactions with our customers that are denominated in foreign currencies in the future. Fluctuations in the value of the U.S. dollar and foreign currencies may make our subscriptions more expensive for international customers, which could harm our business. Additionally, we incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency for such locations. Fluctuations in the exchange rates between the U.S. dollar and other currencies could result in an increase to the U.S. dollar equivalent of such expenses. These fluctuations could cause our results of operations to differ from our expectations or the expectations of our investors. Additionally, such foreign currency exchange rate fluctuations could make it more difficult to detect underlying trends in our business and results of operations.

Our international subsidiaries maintain net assets that are denominated in currencies other than the functional operating currencies of these entities. Accordingly, changes in the value of foreign currencies relative to the U.S. dollar can affect our operating results due to transactional and translational remeasurements that are reflected in our results of operations. To the extent that fluctuations in foreign currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our common stock could be adversely affected.

We currently operate a hedging program to mitigate the impact of foreign currency exchange rate fluctuations on our cash flows and earnings. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign currency exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments, which could adversely affect our financial condition and operating results.

**Risks Related to Ownership of Our Common Stock**

***Our stock price has been, and may continue to be, volatile or may decline regardless of our operating performance, resulting in substantial losses for our stockholders.***

The trading price of our common stock has been, and may continue to be, volatile and could fluctuate widely regardless of our operating performance. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our operating results;
- the financial projections we may provide to the public, any changes in these projections, or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates, and publication of other news by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- ratings changes by any securities analysts who follow our company;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market from time to time, including as a result of trends in the economy as a whole;
- the short and long-term impact of the COVID-19 pandemic, including on the global economy, our results of operations, software spending and business continuity;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- developments or disputes concerning our intellectual property or our solutions, or third-party proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- any major change in our board of directors or management;
- sales of shares of our common stock by us or our stockholders;
- lawsuits threatened or filed against us; and
- other events or factors, including those resulting from war, incidents of terrorism, public health crises or responses to these events.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation in the future or if we are unsuccessful in defending securities-related litigation currently filed against us, it could subject us to substantial costs, make it more expensive for us to obtain director and officer liability insurance, divert resources and the attention of management from operating our business, and adversely affect our business, results of operations, financial condition, and cash flows.

***Our directors, officers, and principal stockholders beneficially own a significant percentage of our stock and will be able to exert significant influence over matters subject to stockholder approval.***

As of June 30, 2022, our directors, officers, five percent or greater stockholders, and their respective affiliates beneficially owned in the aggregate approximately 23% of our outstanding common stock. As a result, these stockholders have the ability to influence us through this ownership position. These stockholders may be able to exert significant influence in matters requiring stockholder approval. For example, these stockholders may be able to exert significant influence in elections of directors, amendments of our organizational documents, and approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

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

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

- authorize our board of directors to issue, without further action by our stockholders, shares of undesignated preferred stock with terms, rights, and preferences determined by our board of directors that may be senior to our common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;

- specify that special meetings of our stockholders can be called only by our board of directors, the Chair of our board of directors, or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, Class I, Class II, and Class III, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed only for cause;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- require the approval of our board of directors or the holders of at least 75% of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware, or "Section 203", which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder became an "interested" stockholder. The provisions of our certificate of incorporation and bylaws cited above and the applicability of Section 203 may tend to delay, defer or prevent a potential unsolicited offer or takeover attempt that is not approved by our board of directors but that our stockholders might consider to be in their best interests, including an attempt that might result in stockholders receiving a premium over the market price for their shares. Any delay or prevention of a change of control transaction or changes in our management could cause the market price of our common stock to decline.

***The changing laws and regulations related to being a public company may strain our resources and divert management's attention.***

Changing laws, regulations, and standards relating to corporate governance and public disclosure can create uncertainty for public companies and increase legal and financial compliance costs. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to continue to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from business operations to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected. Further, we may in the future hire lobbyists or engage in other permissible political activities with the intent of furthering our business interests or otherwise. Such efforts may not be successful and could result in additional costs to the business.

***We do not intend to pay dividends on our common stock so any returns will be limited to changes in the value of our common stock.***

We have never declared or paid any cash dividends on our common stock. We currently anticipate that we will retain future earnings for the development, operation, and expansion of our business, and do not anticipate declaring or paying any cash dividends for the foreseeable future. In addition, our ability to pay cash dividends on our common stock may be prohibited or limited by the terms of our future debt financing arrangements. Any return to stockholders will therefore be limited to the increase, if any, of our stock price, which may never occur.

***If securities or industry analysts do not continue to publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.***

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our common stock or publish inaccurate or unfavorable research about our business, our common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our common stock could decrease, which might cause our common stock price and trading volume to decline.

***Our charter documents designate specific courts as the exclusive forum for certain litigation that may be initiated by the Company's stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.***

Our certificate of incorporation and bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware is the sole and exclusive forum for state law claims for (A) any derivative action or proceeding brought on our behalf; (B) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders; (C) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws (including the interpretation, validity or enforceability thereof); or (D) any action asserting a claim governed by the internal affairs doctrine (the "Delaware Forum Provision"). The Delaware Forum Provision will not apply to any causes of action arising under the Securities Act or the Exchange Act. Our bylaws further provide that unless we consent in writing to the selection of an alternative forum, the district courts of the United States shall be the sole and exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (the "Federal Forum Provision"). In addition, our bylaws provide that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the Delaware Forum Provision and the Federal Forum Provision; provided, however, that stockholders cannot and will not be deemed to have waived our compliance with the U.S. federal securities laws and the rules and regulations thereunder.

The Delaware Forum Provision and the Federal Forum Provision in our bylaws may impose additional litigation costs on stockholders in pursuing any such claims. Additionally, these forum selection clauses may limit our stockholders' ability to bring a claim in a judicial forum that they find favorable for disputes with us or our directors, officers or employees, which may discourage the filing of lawsuits against us and our directors, officers and employees, even though an action, if successful, might benefit our stockholders. In addition, Section 22 of the Securities Act creates a concurrent jurisdiction for state and federal courts over all suits brought concerning a duty or liability created by the securities laws, rules and regulations thereunder. While the Delaware Supreme Court ruled in March 2020 that federal forum selection provisions purporting to require claims under the Securities Act be brought in federal court are "facially valid" under Delaware law, there is uncertainty as to whether other courts will enforce our Federal Forum Provision. If the Federal Forum Provision is found to be unenforceable, we may incur additional costs associated with resolving such matters. The Federal Forum Provision may also impose additional litigation costs on stockholders who assert that the provision is not enforceable or invalid. The Court of Chancery of the State of Delaware and the federal district courts of the United States may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments may be more or less favorable to us than our stockholders.

#### **Risks Related to Our Outstanding Convertible Notes**

***Servicing our debt may require a significant amount of cash. We may not have sufficient cash flow from our business to pay our indebtedness, and we may not have the ability to raise the funds necessary to settle cash conversions of the Notes or to repurchase the Notes for cash upon a fundamental change, which could adversely affect our business and results of operations.***

In March 2018, we issued \$575 million in aggregate principal amount of the 2023 Notes, in a private offering. The interest rate on the 2023 Notes is fixed at 0.25% per annum and is payable semi-annually in arrears on March 15 and September 15 of each year. In June 2020, we issued \$1,150 million aggregate principal amount of the 2025 Notes. The interest rate on the 2025 Notes is fixed at 0.625% per annum and is payable semi-annually in arrears on June 15 and December 15 of each year, commencing on December 15, 2020. In connection with the offering of the 2025 Notes, the Company conducted the 2023 Notes Partial Repurchase using \$618 million of the net proceeds from the offering of the 2025 Notes to repurchase \$426 million aggregate principal amount of the 2023 Notes in cash through individual privately negotiated transactions. As of the repurchase date, the carrying value of the 2023 Notes subject to the 2023 Notes Partial Repurchase, net of unamortized debt discount and issuance costs, was \$367 million. The 2023 Notes Partial Repurchase resulted in a \$26 million loss on early debt extinguishment. As of June 30, 2022, \$149 million of principal remains outstanding on the 2023 Notes. Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flows from operations in the future that are sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flows, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional debt financing or equity capital on terms that may be onerous or highly dilutive. Our ability to refinance any 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 our debt obligations.

Holders of the Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change (as defined in the indenture governing the Notes) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. Upon conversion, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases in connection with such conversion and our ability to pay may additionally be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase the Notes at a time when the repurchase is required by the indenture governing the Notes or to pay any cash payable on future conversions as required by such indenture would constitute a default under such indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof. Additionally, subject to certain exceptions, if we fail to timely file any document or report required under the Exchange Act, in certain circumstances we may be required to pay additional interest of up to 0.50% per annum on our Notes in order to avoid an event of default under the indenture, which may affect our ability to repay the Notes. Furthermore, if we do not remedy such failure within 360 days after receiving notice thereof from the noteholders, there would be an event of default under the indenture.

***The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. As disclosed in Note 8 of the Notes to our Condensed Consolidated Financial Statements, the conditional conversion feature of the 2023 Notes and 2025 Notes that is based on the closing stock price of our common stock during the last 30 trading days of a calendar quarter was not triggered as of June 30, 2022, and the Notes are not convertible between July 1, 2022 and September 30, 2022. Whether the Notes will be convertible following such calendar quarter will depend on the satisfaction of this conditional conversion feature or another conversion condition in the future.

In addition, even if holders do not elect to convert their Notes at a time when they are convertible, we are required to reclassify the outstanding principal of the Notes that are convertible as a current rather than long-term liability, resulting in a material reduction of our net working capital. We have classified the 2025 Notes as a long-term liability on the condensed consolidated balance sheet as of June 30, 2022. The 2023 Notes are classified as a current liability as of June 30, 2022, as they mature within one year of the balance sheet date.

***Transactions relating to our Notes may affect the value of our common stock.***

The conversion of some or all of the Notes would dilute the ownership interests of existing stockholders to the extent we satisfy our conversion obligation by delivering shares of our common stock upon any conversion of such Notes. Our Notes may become in the future convertible at the option of their holders under certain circumstances. If holders of our Notes elect to convert their Notes, we may settle our conversion obligation by delivering to them a significant number of shares of our common stock, which would cause dilution to our existing stockholders.

In addition, in connection with the issuance of the Notes, we entered into capped call transactions with certain financial institutions (the “Option Counterparties”). The capped call transactions are expected generally to reduce the potential dilution to our common stock upon any conversion or settlement of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap. From time to time, the Option Counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes. This activity could cause a decrease in the market price of our common stock.

***We are subject to counterparty risk with respect to the capped call transactions.***

The Option Counterparties are financial institutions, and we are subject to the risk that any or all of them may default under the capped call transactions. Our exposure to the credit risk of the Option Counterparties will not be secured by collateral. Global economic conditions have resulted in actual or perceived failure or financial difficulties of many institutions. If an Option Counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings, with a claim equal to our exposure at that time under our transactions with the Option Counterparty. Our exposure will depend on many factors, but generally, an increase in our exposure will be correlated to an increase in the market price and in the

volatility of our common stock. In addition, upon default by an Option Counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the Option Counterparties.

***The accounting method for convertible debt securities, such as the Notes, could have a material effect on our reported financial results.***

Prior to the adoption of ASU 2020-06, under ASC 470-20, an entity was required to separately account for the liability and equity components of convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer's economic interest cost. The legacy guidance required the value of the conversion option of the Notes, representing the equity component, to be recorded as additional paid-in capital within stockholders' equity in our consolidated balance sheet and as a discount to the Notes, which reduced their initial carrying value. The carrying value of the Notes, net of the discount recorded, was to be accreted up to the principal amount of the Notes from the issuance date until maturity, which resulted in non-cash charges to interest expense in our consolidated statement of operations. Accordingly, we reported higher net loss in our financial results prior to the adoption of ASU 2020-06 because ASC 470-20 required interest to include both the current period's accretion of the debt discount and the instrument's coupon interest.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash were accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes were not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeded their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued.

As of January 1, 2022, we adopted ASU 2020-06 which, for most convertible instruments (such as the Notes), requires the entire debt amount to be classified as a liability. This eliminated the recognition of non-cash charges to interest expense and accordingly, results in higher net income or lower net loss in our financial statements. Additionally, the new guidance eliminates the treasury stock method for most convertible instruments and instead requires application of the "if-converted" method. Under that method, diluted earnings per share is generally calculated assuming that all the Notes are converted solely into shares of common stock at the beginning of the reporting period, unless the result is anti-dilutive. Upon adoption of the standard, we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes. Accordingly, our diluted earnings per share is generally expected to be adversely affected in comparison to periods prior to adoption.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

On July 26, 2022, the Compensation Committee of the Board of Directors of the Company adopted and approved the amendment and restatement of a severance plan that was originally adopted on June 23, 2022, the material terms of which were disclosed on the Current Report on Form 8-K filed on June 24, 2022. Among other things, the amended and restated plan has been expanded to cover all employees of the Company, but otherwise contains the same material terms as previously disclosed. A copy of this amended and restated severance plan is filed as Exhibit 10.2 hereto and is incorporated by reference herein.

**Item 6. Exhibits**

The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

# EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
2.1*	<a href="#">Agreement and Plan of Merger, dated as of June 24, 2022, by and among Zendesk, Inc., Zoro BidCo, Inc. and Zoro Merger Sub, Inc.</a>	8-K	001-36456	2.1	June 24, 2022
3.1	<a href="#">Amended and Restated Certificate of Incorporation of the Registrant.</a>	10-Q	001-36456	3.1	August 7, 2014
3.2	<a href="#">Amended and Restated By-laws of the Registrant.</a>	10-Q	001-36456	3.2	July 30, 2021
10.1#	<a href="#">Offer Letter between the Registrant and Pat Copeland, dated as of May 11, 2022</a>	Filed herewith			
10.2#	<a href="#">Zendesk, Inc. Amended and Restated Employee Severance Plan and Summary Plan Description</a>	Filed herewith			
31.1	<a href="#">Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.</a>	Filed herewith			
31.2	<a href="#">Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.</a>	Filed herewith			
32.1**	<a href="#">Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.</a>	Furnished herewith			
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)	Filed herewith			
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith			
101.CAL	<a href="#">Inline XBRL Taxonomy Extension Calculation Linkbase Document</a>	Filed herewith			
101.DEF	<a href="#">Inline XBRL Taxonomy Extension Definition Linkbase Document</a>	Filed herewith			
101.LAB	<a href="#">Inline XBRL Taxonomy Extension Label Linkbase Document</a>	Filed herewith			
101.PRE	<a href="#">Inline XBRL Taxonomy Extension Presentation Linkbase Document</a>	Filed herewith			
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)	Filed herewith			

# Indicates management contract or compensatory plan, contract, or agreement.

\* Schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. The registrant hereby undertakes to furnish supplementally copies of any of the omitted schedules upon request by the SEC.

\*\* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: July 29, 2022

---

**Zendesk, Inc.**

By: /s/ Shelagh Glaser  
Shelagh Glaser  
Chief Financial Officer  
(Principal Financial Officer)



May 11, 2022

Dear Patrick:

On behalf of Zendesk, Inc. (the "Company"), I am pleased to offer you employment with the Company. This letter outlines the terms for your employment.

**Position:** Your initial position with the Company will be Chief Engineering Officer. This is a regular full-time exempt position reporting to Mikkel Svane, Chief Executive Officer.

**Start Date:** Unless we arrange separately, your first day of employment will be prior to or on July 18, 2022, subject to the satisfactory completion by the Company of your background check, credentials and references.

**Salary:** The Company will pay you an annual salary of \$450,000, paid bi-weekly during your employment, and subject to periodic review and adjustments at the discretion of the Company. Your salary and other compensation will be subject to applicable deductions and withholdings.

**Bonus:** You will be eligible to receive an annual target bonus of 80% of your Base Salary (or annualized target base pay, if paid hourly) based upon the achievement of performance goals established separately ("Bonus"). The actual Bonus is discretionary and will be subject to the Company's assessment of your performance, as well as business conditions at the Company. The Company also may make adjustments to the targeted amount of your Bonus, and the Bonus may be subject to approval by and adjustments at the discretion of the Company's Board of Directors ("Board"), a delegate of the Board, or the Company and subject to the terms of any applicable bonus plan separately delivered to you. Employees with a Start Date on or before September 30th are eligible for a prorated Bonus for the performance year in which they started, as determined by the Board and subject to the terms of any applicable bonus plan that will be separately delivered to you. The Bonus, if any, will be payable in the calendar year following the close of the performance year; provided that you are employed and in good standing with the Company through the date of payment and satisfy the terms and conditions of any applicable bonus plan.



989 Market St., San Francisco CA 94103  
Zendesk, Inc

**Sign-on Bonus:** The Company will provide you with a sign-on bonus of \$300,000 subject to applicable taxes and withholdings (the "Sign-on Bonus"). Your Sign-on Bonus will be advanced to you on the next regularly scheduled payroll date after July 1, 2022. You will earn the first half of the Sign-on Bonus (\$150,000) upon completing twelve months of employment with the Company after your Start Date and you will earn the second half of your Sign-on Bonus (\$150,000) upon completing twenty-four months of employment with the Company after your Start Date. In the event that your employment is terminated for Cause or you resign without Good Reason (as those terms are defined in the Acceleration Plan but without any requirement of the Acceleration Plan being applied) within twenty-four months of the Start Date, you will be required to repay any unearned portions of the Sign-on Bonus to the Company.

**RSU Award:** You will be eligible to participate in the Company's equity incentive program, subject to approval by the Company's Board of Directors ("Board") or an authorized delegate of the Board. We will recommend to the Board, or a delegate of the Board, that you be granted Restricted Stock Units ("RSUs") for shares of the Company's Common Stock representing a targeted value of \$7,125,000. The targeted value will be converted into a number of shares, with such actual number of shares recommended to the Board or its authorized delegate for approval and will be subject to the Board and its authorized delegate's discretion. Further information regarding the date ranges that will be used to calculate the recommended actual number of shares is available on the Company intranet or by request. Your RSUs will vest over a four-year vesting schedule, subject in each case to your continuous service to the Company through each vesting date. The terms and conditions associated with any RSUs granted to you, including vesting and other conditions, will be governed by the Company's 2014 Stock Option and Incentive Plan (the "Plan") and any associated restricted stock unit award agreement that you may be required to enter with the Company.

**PSU Award:** You will be eligible to participate in the Company's equity incentive program, subject to approval by the Company's Board of Directors ("Board") or an authorized delegate of the Board. We will recommend to the Board, or a delegate of the Board, that you be granted Performance Restricted Stock Units ("PSUs") for shares of the Company's Common Stock representing a targeted value of \$2,375,000. The targeted value will be converted into a number of shares, with such actual number of shares recommended to the Board or its authorized delegate for approval and will be subject to the Board and its authorized delegate's discretion. Your PSUs will be subject to both a service-based and performance-based vesting condition, both of which must be satisfied before the PSUs may be deemed vested and settled for shares. The service-based condition shall be satisfied based on your continued service over 4 years, and the performance-based condition shall be satisfied based on the achievement of relative total stockholder return and revenue goals, as addressed in further detail in the award agreement. The specific terms and conditions associated with any PSUs granted to you, including vesting and other conditions, will be governed by the Company's 2014 Stock

---

Option and Incentive Plan (the "Plan") and any associated performance restricted stock unit award agreement that you may be required to enter with the Company.

**Acceleration of the Vesting of Equity:** You will be eligible to participate in the Company's Change in Control Acceleration Plan (the "Acceleration Plan"). The Acceleration Plan provides for the acceleration of the vesting of a participant's RSUs and stock options in the event that the participant's provision of services to the Company is terminated under certain circumstances following a change in control of the Company, subject to the terms and conditions set forth in the Acceleration Plan. The full text of the Acceleration Plan is available for your review.

**Benefits:** You will be eligible to participate in the employee benefits and insurance programs generally made available to employees at your level, including health, dental, life and disability insurance, subject to the terms and conditions of those plans and programs, which may be modified from time to time. Details of these benefits programs, including mandatory employee contributions, will be made available to you when you start. You may also participate in the Company's 401(k) Retirement Plan and you will be eligible to participate in our "Take What You Need" Vacation Policy. The Company reserves the right to change and/or modify its benefits offerings at any time.

**Representation Regarding Other Obligations:** This offer is contingent on your representation that you are not subject to any confidentiality, non-competition agreement or a similar type of restriction that may affect your ability to devote full time and attention to your work at Zendesk. If you have entered into any agreement that may limit your ability to work on behalf of the Company, please provide the Company with a copy of such agreement as soon as possible.

**Other Terms:** Your employment with the Company shall be on an at-will basis. In other words, you or the Company may terminate employment for any reason and at any time, with or without notice. Similarly, the terms of employment outlined in this letter are subject to change at any time provided that the at-will nature of your employment may not be altered except by a formal writing signed by the Company's Chief Executive Officer.

By accepting this offer of employment, you agree that, throughout your employment with the Company, you will devote your entire working time for the benefit of the Company, perform your duties loyally and conscientiously, and to the full extent of your ability. You also agree to observe all rules and regulations that the Company has, or may establish, governing the conduct of its business or its employees. The Company is an equal opportunity employer, and prides itself and believes in the full worth and value of its diverse workforce. The Company does not tolerate any form of harassment, discrimination, or retaliation, and fully enforces its policies protecting all employees from such, including sexual harassment.

---

**Arbitration and Nondisclosure Agreements:** This offer of employment is conditioned on you signing and returning the Company's standard Confidentiality and Invention Assignment Agreement, attached as Exhibit A, and the Company's standard Mutual Agreement to Arbitrate Claims, attached as Exhibit B (collectively, "Employee Agreements"). You must return these signed documents to us before your first date of employment.

**Work Authorization:** As with all employees, our offer to you is contingent on your submission of satisfactory proof of your identity and your legal authorization to work in the United States. You will be required to complete Form I-9 in accordance with the Immigration Reform and Control Act of 1986. You are required to complete Section 1 of the Form I-9 on or before your first day of employment and to present, within 72 hours of hire, verification of your identity and legal right to work in the United States. On your first day of employment, bring original documents to verify your employment eligibility - please refer to the I-9 form for the list of acceptable documents.

**U.S. Vaccination Policy:** Consistent with Zendesk's emphasis on employee wellness and our shared interest in public health, Zendesk requires all U.S. employees to provide proof of full vaccination against COVID-19. Zendesk will consider accommodations for reasons recognized by applicable law. Zendesk prohibits discrimination and will not tolerate discrimination based on a person's disability, physical or mental conditions, religion, or any other status protected by law. Failure to comply with Zendesk's vaccine requirement will lead to discipline, up to and including being placed on unpaid leave or terminated.

This offer letter is governed by the law of the state where your job will be located. The terms set forth in this letter and in the enclosures are intended to and do supersede all and any prior employment agreements, understandings and verbal or written representations between the Company and you concerning the terms of your employment with the Company. All such prior agreements, understandings and promises are null and void.

---

We are excited about the opportunity to work with you at Zendesk, Inc. If you have any questions about this information, please do not hesitate to call. Otherwise, please confirm your acceptance of this offer of employment by May 13th, 2022 by signing below and returning a copy. We are confident that with your background and skills, you will have an immediate positive impact on our organization.

Very truly yours,

Mikkel Svane  
Chief Executive Officer

I have reviewed this offer letter and accept its terms. I also have reviewed the Mutual Agreement to Arbitrate, and the Confidentiality and Invention Assignment Agreement. I also understand that either Zendesk, Inc. or I may end the employment relationship at any time, with or without cause, and with or without notice.

5/11/2022

s/ Patrick Copeland

Date

Patrick Copeland

---





**ZENDESK, INC.**

---

Amended and Restated Zendesk, Inc.  
Employee Severance Plan and Summary Plan Description

---

1. Purpose. The purpose of this Amended and Restated Zendesk, Inc. Employee Severance Plan (this “Plan”) is to provide severance protection to designated employees of the Company and its Subsidiaries in the event of a termination of their employment in certain specified circumstances. This Plan is an “employee benefit plan,” as defined in Section 3(3) of ERISA. This Plan is governed by ERISA and, to the extent applicable, the laws of the State of California. This document constitutes both the written instrument under which this Plan is maintained and the required summary plan description for this Plan. This Plan is effective as of July 26, 2022 (the “Effective Date”).

2. Definitions. The following definitions are applicable for purposes of this Plan, in addition to the terms defined in Section 1 above:

(a) “Accrued Obligations” means, for an Eligible Employee, the Eligible Employee’s (i) Annual Base Salary or Week of Pay, as applicable, otherwise payable through the Date of Termination; (ii) any bonus earned by the Eligible Employee under the Annual Bonus Plan for the most recently completed fiscal year but not paid to the Eligible Employee as of the Date of Termination; (iii) unreimbursed business expenses reimbursable under Company policies then in effect; and (iv) earned and accrued vacation pay, if applicable, to the extent not theretofore paid.

(b) “Administrator” means the Company, whether or not acting through the Committee or another duly constituted committee of members of the Board, or any officer of the Company to whom the Administrator has delegated any authority or responsibility with respect to this Plan; provided that with respect to each Eligible Employee who is an executive officer of the Company, the Administrator shall be the Compensation Committee of the Board.

(c) “Affiliate” means any entity controlled by, controlling or under common control with the Company.

(d) “Annual Base Salary” means a salaried Eligible Employee’s annual rate of base salary (as reflected in the Company’s records).

(e) “Annual Target Bonus” means the Eligible Employee’s annual target bonus opportunity as in effect under the applicable annual, short-term cash bonus plan (the “Annual Bonus Plan”) for the fiscal year in which the Date of Termination occurs (as reflected in the Company’s records, to the extent not provided to the Eligible Employee in an offer letter or other written communication).

(f) “Base Hourly Rate of Pay” means an hourly Eligible Employee’s base hourly wage rate (as reflected in the Company’s records), which for the avoidance of doubt shall not include any overtime or holiday, weekend, or other premiums.

(g) “Board” means the Board of Directors of the Company.

(h) “Cause” means: (i) gross neglect of, or willful failure or refusal to timely perform the material duties of the Eligible Employee’s employment following written notice and a reasonable opportunity (not to exceed 30 days) to cure, if such neglect, failure or refusal is capable of being cured; (ii) a material breach of the terms of any offer letter or employment agreement between the Eligible Employee and the Company, or any other agreement (including the confidentiality agreement and/or proprietary information agreement entered into in connection with Eligible Employee’s employment) by and between the Eligible Employee and the Company which causes demonstrable injury to the Company provided that Eligible Employee has received written notice of the breach and a reasonable opportunity (not to exceed 30 days) to cure, if such breach is capable of being cured; or (iii) commission of, or plea of guilty or nolo contendere to, a crime involving moral turpitude, dishonesty, fraud or unethical business conduct, or any felony.

(i) “Change in Control Plan” means the Company’s Change in Control Acceleration Plan, dated May 12, 2015, as amended.

(j) “Change in Control Protection Period” means the period beginning on the date of the Closing and ending on the first anniversary thereof.

(k) “Closing” means the completion of the transactions contemplated by that certain Merger Agreement among Zoro Bidco, Inc., Zoro Merger Sub, Inc., and the Company, dated June 24, 2022, as the same may be amended.

(l) “Code” means the Internal Revenue Code of 1986, as amended from time to time, and all regulations, interpretations, and administrative guidance issued thereunder.

(m) “Committee” means the Compensation Committee of the Board, or its designee.

(n) “Company” means Zendesk, Inc., a Delaware corporation and any successor that assumes the obligations of the Company under this Plan, by way of merger, acquisition, consolidation, or other transaction.

(o) “Date of Termination” means, for an Eligible Employee, the Eligible Employee’s “separation from service” as defined in Treasury Regulations §1.409A-1(h), which, except as otherwise expressly provided in Section 6(f) below, for purposes of this Plan, shall not occur prior to the last day of the Notice Period.

(p) “Eligible Employee” means any salaried or hourly employee (within the meaning of the Federal Labor Standards Act) of the Company, and any non-U.S.-based employee employed by a Subsidiary.



(q) “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

(r) “Good Reason” means (i) if the Eligible Employee is a participant in the Change in Control Plan, the definition of Good Reason as defined and determined under the Change in Control Plan, or (ii) if the Eligible Employee is *not* a participant in the Change in Control Plan, “Good Reason” means a resignation from employment on or within 30 days after a cure period of 30 days following the Eligible Employee’s Notice Date in which the Eligible Employee has provided written notice to the Company (or any successor) of any of the following circumstances, in each case occurring without the Eligible Employee’s consent: (x) the Eligible Employee’s Annual Base Salary (for salaried employees) or Base Hourly Rate of Pay (for hourly employees) and Annual Target Bonus are materially reduced or diminished (other than in connection with a reduction in the Annual Base Salary/Base Hourly Rate of Pay and Annual Target Bonus of all similarly situated employees, that is equivalent on a percentage basis), or (y) the Eligible Employee’s principal location at which the Eligible Employee is expected to work (which for the avoidance of doubt may be at a remote location from a Company property) is relocated to a location that is more than 35 miles from the then-current principal location at which the Eligible Employee is working prior to such relocation.

(s) “Notice Date” means the date on which the Company or Eligible Employee, as applicable gives written notice to the other party of the intention to terminate employment due to a Qualifying Termination.

(t) “Notice Pay” means the Annual Base Salary or Weeks of Pay, as applicable, paid to the Eligible Employee in respect of the Notice Period (whether paid over the Notice Period or paid in a lump sum in lieu of notice, in as permitted under applicable law).

(u) “Notice Period” means the period beginning on the Notice Date and ending on the sixtieth (60<sup>th</sup>) day following the Notice Date or, for any non-U.S. Eligible Employee, such notice period required by such employee’s contract of employment or applicable statutory law, whichever is longer, during which time, subject to applicable law, the Eligible Employee may be placed on garden leave, to be available to provide such transition and other position-related services as the Eligible Employee’s supervisor may reasonably request.

(v) “Qualifying Termination” means a termination of an Eligible Employee’s employment with the Company or any of its Subsidiaries that is initiated by the Company or any of its Subsidiaries without Cause or by the Eligible Employee for Good Reason. Termination due to death or disability shall not be treated as a Qualifying Termination.

(w) “Release” has the meaning specified in Section 6.

(x) “Severance Benefits” has the meaning specified in Section 6.

(y) “Subsidiary” means any corporation, partnership, joint venture, limited liability company or other entity during any period more than a 50% voting or profits interest is owned, directly or indirectly, by the Company or any successor to the Company.

(z) “Week of Pay” means (i) if the Eligible Employee is a salaried employee, then the quotient of (x) such employee’s Annual Base Salary as of the Date of Termination, *divided by* (y) fifty-two (52) and (ii) if the Eligible Employee is an hourly employee, then the product of (x) such employee’s Base Hourly Rate of Pay as of the Date of Termination and (y) forty (40).

(aa) “Years of Service” means the total number of full years from the Eligible Employee’s adjusted date of hire (as reflected in the Company’s records for purposes of benefits generally) to the Eligible Employee’s Date of Termination (i.e. rounded down to the nearest total whole number).

3. Eligibility. An Eligible Employee shall be eligible for the Severance Benefit, subject to the terms and conditions described herein, only if he or she experiences a Qualifying Termination and is an Eligible Employee on his or her Date of Termination.

4. Administration. This Plan shall be interpreted, administered, and operated by the Administrator, which shall have complete authority, subject to the express provisions of this Plan, to interpret this Plan, to prescribe, amend, and rescind rules and regulations relating to this Plan, and to make all other determinations necessary or advisable for the administration of this Plan. Such authority shall include the powers to resolve ambiguities, inconsistencies, and omissions, and to correct any scrivener’s error. The Administrator may delegate any of its duties hereunder to a subcommittee, or to such other person or persons from time to time as it may designate. All decisions, interpretations and other actions of the Administrator shall be final, conclusive, and binding on all parties who have an interest in this Plan.

5. Accrued Obligations. Subject to the terms and conditions hereof, in the event of an Eligible Employee’s Qualifying Termination:

(a) The Company or its Subsidiaries shall pay the Eligible Employee the Accrued Obligations, payable, subject to applicable law, on the dates such amounts would have been payable under the Company’s policies if the Eligible Employee’s employment had not terminated.

(b) The Eligible Employee’s benefits and rights under the Company’s benefit plans shall be determined in accordance with the applicable provisions of such plans, in each case as in effect and amended from time to time.

6. Qualifying Termination. In addition to the payments and benefits set forth in Section 5, if an Eligible Employee’s termination of employment with the Company is a Qualifying Termination, the Eligible Employee shall also be entitled to receive the following payments and benefits (collectively, the “Severance Benefits”):

(a) Cash Severance. A cash severance payment, which shall be paid in a lump sum within 60 days following the Date of Termination, equal to the following (as applicable):

(i) Eligible Employees with a Title of Senior Vice President or Above (“SVP+”). An amount equal to (A) the product of (x) 1.0 multiplied by (y) the sum of the Eligible Employee’s Annual Base Salary and Annual Target Bonus for the year in which the Date of Termination occurs (or, if no such Annual Target Bonus has been set as of the

Date of Termination, the Annual Target Bonus for the immediately preceding year), minus (but not reduced below zero) (B) any Notice Pay which, prior to calculation of this amount, has been paid to the Eligible Employee and (C) statutory severance pay, where applicable;

(ii) Eligible Employees with a Title of Vice President ("Vice Presidents"). An amount equal to (A) the product of (x) 0.5 multiplied by (y) the sum of the Eligible Employee's Annual Base Salary, plus (B) one additional Week of Pay for each Year of Service, up to a maximum amount for clauses (A) and (B) together equal to the Eligible Employee's Annual Base Salary for a full year, minus (but not reduced below zero) (C) any Notice Pay which, prior to calculation of this amount, has been paid to the Eligible Employee, and (D) statutory severance pay, where applicable; or

(iii) Eligible Employees with a Title of Senior Director or Below ("All Other Eligible Employees"). An amount equal to:

(A) for any salaried Eligible Employee, (I) the product of (x) 0.25 multiplied by (y) the sum of the Eligible Employee's Annual Base Salary, plus (II) one additional Week of Pay for each Year of Service, up to a maximum amount for clauses (I) and (II) together equal to the Eligible Employee's Annual Base Salary for a full year, minus (but not reduced below zero) (III) any Notice Pay which, prior to calculation of this amount, has been paid to the Eligible Employee and (IV) statutory severance pay, where applicable; and

(B) for any hourly Eligible Employee, (I) thirteen (13) Weeks of Pay of such Eligible Employee, plus (II) one additional Week of Pay for each Year of Service, up to a maximum amount for clauses (I) and (II) together equal to fifty-two (52) Weeks of Pay, minus (but not reduced below zero) (III) any Notice Pay which, prior to calculation of this amount, has been paid to the Eligible Employee and (IV) statutory severance pay, where applicable.

(b) Prorated Annual Target Bonus. For all Eligible Employees *other than* SVP+, an amount, which shall be paid in a lump sum within 60 days following the Date of Termination, equal to (A) the Eligible Employee's Annual Target Bonus, multiplied by (B) a fraction, (I) the numerator of which is the number of completed months elapsed in the performance year of the Annual Bonus Plan as of the Date of Termination, and (II) the denominator of which is 12.

(c) Health Care Benefits. **If** a U.S.-based Eligible Employee timely elects continued medical and dental benefit coverage pursuant to Section 4980B(f) of the Code, **then**, until the earlier of such time as the Eligible Employee becomes eligible to receive medical and dental benefits under another employer-provided plan and:

(i) for SVP+, the first anniversary of the Date of Termination,

(ii) for Vice Presidents, a period equal to (I) six (6) full calendar months occurring after the Date of Termination, plus (II) an additional calendar week for each Year of Service, minus (but not reduced below zero) (III) the percentage (not to exceed 100%) of the Notice Period that has expired since the Notice Date; and

(iii) for All Other Eligible Employees, a period equal to (I) three (3) full calendar months occurring after the Date of Termination, plus (II) an additional calendar week for each Year of Service, minus (but not reduced below zero) (III) the percentage (not to exceed 100%) of the Notice Period that has expired since the Notice Date;

in each such case the Company or its Subsidiaries shall direct pay for the premiums associated with such coverage in an amount equal to the premiums that the Company or its Subsidiaries would have paid in respect of such coverage had the Eligible Employee's employment continued during such period (so long as the Eligible Employee continues to pay his or her share of the active employee rate).

(d) Equity-Based Awards.

(i) During the sixty (60) day period following the Notice Date, any unvested long-term incentive awards granted prior to the Closing (including any cash-based awards which correspond to awards that, prior to the Closing, were denominated in shares of common stock of the Company) (collectively, "LTIP Awards") that are held by the Eligible Employee on the Notice Date shall continue to vest and be settled in accordance with their terms.

(ii) Upon the Date of Termination, any LTIP Awards then remaining unvested shall become vested as follows: **if** the Eligible Employee is a participant in the Change in Control Plan and the Date of Termination occurs (x) during the Change in Control Period, **then** the treatment of all such awards shall be as provided under the Change in Control Plan, or (y) other than during the Change in Control Period, **then** any such awards that would, by their terms as in effect immediately prior to the Date of Termination, otherwise become vested within (I) for SVPs+, (A) six (6) full calendar months occurring after and including the Date of Termination, minus (but not reduced below zero) (B) the number of days (not to exceed 60 days) that have elapsed since the Notice Date and (II) for Vice Presidents, (A) three (3) full calendar months occurring after and including the Date of Termination, minus (but not reduced below zero) (B) the number of days (not to exceed 60 days) that have elapsed since the Notice Date, in each case shall become immediately and fully vested, and subsequently settled within 60 days following the Date of Termination.

(iii) For the avoidance of doubt, and except as otherwise provided under Section 6(d)(i) above, **if** the Eligible Employee is not a participant in the Change in Control Plan, **then** any LTIP Awards that remain unvested as of the Date of Termination will be forfeited without further vesting or payment on such date.

(e) Outplacement Services. For all Eligible Employees *other than* SVP+, the Company or its Subsidiaries shall, at its sole expense as incurred, provide the Eligible Employee with reasonable outplacement services for six (6) months after the Date of Termination, the provider and scope of which shall be selected by the Company or its Subsidiaries in its sole discretion.

(f) Pay in Lieu of Notice. Notwithstanding anything set forth in this Plan to the contrary, nothing in this Plan shall prevent the Company or any of its Subsidiaries from terminating

the services of any Eligible Employee prior to the expiration of the Notice Period (an “Early Termination”). Upon the occurrence of an Early Termination, (i) the term “Date of Termination” as used under this Plan shall be deemed to refer to the date of such Early Termination and (ii) any then unpaid Notice Pay shall be paid in a lump sum within 60 days following the Date of Termination.

---

(g) Certain Severance Benefits Subject to a Release of Claims. The Severance Benefits that are greater than that to which an Eligible Employee is entitled under statute shall only be paid or provided, as applicable, if the Eligible Employee executes and does not revoke a separation agreement and release of claims in the form customarily used by the Company or its Subsidiaries (the “Release”) within the time period specified therein, and if no such time period is specified therein, then within sixty (60) days following the Date of Termination, which Release will include, among other provisions, an affirmation of compliance with those restrictive covenants set forth in the Eligible Employee’s Confidentiality & Invention Agreement or employment agreement, as applicable. For the avoidance of doubt, none of the Eligible Employee’s continued employment and receipt of compensation and benefits during the Notice Period (nor, for Eligible Employees outside of the U.S., the benefits provided under Section 6(d) above), shall be conditioned upon the Eligible Employee’s execution and non-revocation of the Release.

7. Other Provisions Applicable to the Severance Benefit.

(a) Non-Duplication of Severance Benefits and Statutory Benefits. No notice pay or other similar payments required to be paid under the Worker Adjustment and Retraining Notification Act of 1988 (or any successor or similar law) shall be paid in addition to the Notice Pay and other benefits to be provided during the Notice Period. For the avoidance of doubt, if the Eligible Employee is entitled to any notice, severance, separation, termination indemnity, or other similar payments and benefits under any non-U.S. law or custom outside the U.S., the Notice Pay and other benefits to be provided during the Notice Period and the Severance Benefits shall be reduced, on a dollar-for-dollar basis, by the amount of such payments and benefits otherwise provided in such non-U.S. jurisdiction.

(b) No Duty to Mitigate; No Offset. In no event shall an Eligible Employee be obligated to take any action by way of mitigation of the amounts payable to such Eligible Employee under any of the provisions of this Plan, and payments and benefits payable or to be provided under this Plan shall not be offset by amounts earned from another employer.

(c) Deferrals Included in Base Pay and Annual Target Bonus. All references in this Plan to Annual Base Salary, Base Hourly Rate of Pay, Week of Pay, and Annual Target Bonus, as applicable, mean such amount before reduction pursuant to any plan or other arrangement for deferral of compensation (including any tax-qualified retirement plan).

(d) Transfers of Employment. Anything in this Plan to the contrary notwithstanding, a transfer of employment from the Company to an Affiliate or vice versa shall not be considered a termination of employment for purposes of this Plan.



8. Special Rules for Compliance with Section 409A of the Code. This Section 8 serves to ensure compliance with applicable requirements of Section 409A of the Code. If the terms of this Section 8 conflict with other terms of this Plan, the terms of this Section 8 shall control.

(a) General Compliance. All payments that may be made and benefits that may be provided pursuant to this Plan are intended to comply with or be exempt from the requirements of Section 409A of the Code and this Plan shall be interpreted accordingly. In addition to the foregoing provisions, the terms of this Plan, including any authority of the Company and rights of the Eligible Employee that constitute a deferral of compensation subject to Section 409A of the Code, shall be limited to those terms permitted under Section 409A of the Code without resulting in a tax penalty to Eligible Employee, and any terms not so permitted under Section 409A of the Code shall be modified and limited to the extent necessary to avoid tax under Section 409A of the Code but only to the extent that such modification or limitation is permitted under Section 409A of the Code. The Company and its employees and agents make no representation and are providing no advice regarding the taxation of the payments and benefits under this Plan, including with respect to taxes, interest, and penalties under Section 409A of the Code and similar liabilities under state and local tax laws. No indemnification or gross-up is payable under this Plan with respect to any such tax, interest, or penalty under Section 409A of the Code or similar liability under state or local tax laws applicable to any Eligible Employee.

(b) Six (6)-Month Delay Rule. If an Eligible Employee is a “specified employee” (as determined by the Administrator or its designee in accordance with Treasury Regulations § 1.409A-1(i)) as of his or her Date of Termination, then the Severance Benefit shall be subject to the six (6)-month delay rule of Section 409A of the Code(a)(2)(B)(i) to the extent required by Section 409A of the Code (determined after taking into account the “short-term deferral” rule in Treasury Regulations § 1.409A-1(b)(4), the “two-year, two-time” rule described in Treasury Regulations § 1.409A-1(b)(9), and any other available exception from such requirements). Each payment that is subject to such six (6)-month delay rule shall be made, without interest, on the later of (i) the Company’s first payroll date that is at least six (6) months after the Eligible Employee’s Date of Termination (or, if earlier, as soon as practicable after the Eligible Employee’s death) or (ii) the date when such payment would otherwise be due under the terms of the Plan. Each installment in a series of payments or benefits shall be deemed a separate payment for purposes of Section 409A of the Code.

9. Claims Procedures.

(a) Initial Claims. An Eligible Employee who believes he or she is entitled to a payment under this Plan that has not been received may submit a written claim for benefits under this Plan within sixty (60) days after the Eligible Employee’s Date of Termination. Claims shall be addressed and sent to:

Zendesk, Inc.  
989 Market St.  
San Francisco, CA 94103  
Attn: Chief People Officer

If the Eligible Employee's claim is denied, in whole or in part, the Eligible Employee will be furnished with written notice of the denial within ninety (90) days after the Administrator's receipt of the Eligible Employee's written claim, unless special circumstances require an extension of time for processing the claim, in which case the decision period may be extended by up to an additional ninety (90) days. If such an extension of time is necessary, written notice of the extension will be furnished to the Eligible Employee before the termination of the initial ninety (90)-day period and will describe the circumstances requiring the extension and the date by which a decision is expected to be rendered. Written notice of the denial of the Eligible Employee's claim will contain the following information:

(i) the reason or reasons for the denial of the Eligible Employee's claim;

(ii) references to the Plan provisions on which the denial of the Eligible Employee's claim was based;

(iii) a description of any additional information or material required by the Administrator to reconsider the Eligible Employee's claim (to the extent applicable) and an explanation of why such material or information is necessary; and

(iv) a description of this Plan's review procedures and time limits applicable to such procedures, including a statement of the Eligible Employee's right to bring a civil action under Section 502(a) of ERISA following a benefit claim denial on review.

(b) Appeal of Denied Claims. If the Eligible Employee's claim is denied, the Eligible Employee (or his or her authorized representative) may file a request for review of the claim in writing with the Administrator. This request for review must be filed no later than sixty (60) days after the Eligible Employee has received written notification of the denial.

(i) Such request for review may include any comments, documents, records and other information relating to his or her claim for benefits.

(ii) The Eligible Employee has the right to be provided with, upon request and free of charge, reasonable access to and copies of all pertinent documents, records and other information that is relevant to his or her claim for benefits.

(iii) The review of the denied claim will take into account all comments, documents, records and other information that the Eligible Employee submitted relating to his or her claim, without regard to whether such information was submitted or considered in the initial denial of his or her claim.

(c) Administrator's Response to Appeal. The Administrator will notify the Eligible Employee of its decision within sixty (60) days after the Administrator's receipt of the Eligible Employee's written claim for review; provided that the Administrator may extend the review period by up to sixty (60) additional days, if the Administrator notifies the Eligible Employee in writing of the need for an extension (and the reason therefor) before the end of the

initial sixty (60)-day period. If the Administrator makes an adverse decision on appeal, the Administrator shall communicate its decision in a writing that includes:

(i) the reason or reasons for the denial of the Eligible Employee's appeal;

(ii) reference to the Plan provisions on which the denial of the Eligible Employee's appeal is based;

(iii) a statement that the Eligible Employee is entitled to receive, upon request and free of charge, reasonable access to, and copies of, this Plan and all documents, records and other information relevant to his or her claim for benefits; and

(iv) a statement describing the Eligible Employee's right to bring an action under Section 502(a) of ERISA.

(d) Exhaustion of Administrative Remedies. The exhaustion of these claims procedures is mandatory for resolving every claim and dispute arising under this Plan. As to such claims and disputes:

(i) no claimant shall be permitted to commence any arbitration or legal action to recover benefits or to enforce or clarify rights under this Plan or under any provision of law until these claims procedures have been exhausted in their entirety;

(ii) failure to submit a claim, appeal, or any required information by the applicable deadline under these claims procedures shall result in forfeiture of the benefits being claimed;

(iii) in any arbitration or legal action, all explicit and implicit determinations by the Administrator (including, but not limited to, determinations as to whether the claim, or a request for a review of a denied claim, was timely filed) shall be afforded the maximum deference permitted by law; and

(iv) no legal action or arbitration may be commenced by the Eligible Employee later than one hundred eighty (180) days subsequent to the date of the written response of the Administrator to an Eligible Employee's request for review pursuant to Section 9(b).

10. Statement of ERISA Rights.

(a) Eligible Employees are entitled to certain rights and protections under ERISA. ERISA provides that all Eligible Employees shall be entitled to:

(i) Receive Information about This Plan and Benefits Hereunder.

- Examine, without charge, at the Administrator's office and at other specified locations, such as worksites, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series) filed by the



Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration.

- Obtain, upon written request to the Administrator, copies of documents governing the operation of the Plan and copies of the latest annual report (Form 5500 Series) and any updated summary plan description. The Administrator may make a reasonable charge for the copies.
- Receive a summary of the Plan's annual financial report, if any. The Administrator is required by law to furnish each Eligible Employee with a copy of this summary annual report.

(ii) Prudent Actions by Plan Fiduciaries. In addition to creating rights for Eligible Employees, ERISA imposes duties upon the people who are responsible for the operation of the Plan. The people who operate the Plan, called "fiduciaries" of the plan, have a duty to do so prudently and in the interest of the Eligible Employees and their beneficiaries. No one, including any employer, may fire an Eligible Employee or otherwise discriminate against an Eligible Employee in any way to prevent the Eligible Employee from obtaining a benefit under this Plan or exercising the Eligible Employee's rights under ERISA.

(iii) Enforce Rights. If an Eligible Employee's claim for a benefit under this Plan is denied or ignored, in whole or in part, the Eligible Employee has a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules. Under ERISA, there are steps the Eligible Employee can take to enforce the above rights. For instance, if the Eligible Employee requests a copy of plan documents or the latest annual report from the Plan and do not receive them within thirty (30) days, the Eligible Employee may file suit in a federal court. In such a case, the court may require the Administrator to provide the materials and pay the Eligible Employee up to \$110 a day until the Eligible Employee receives the materials, unless the materials were not sent because of reasons beyond the control of the Administrator. If the Eligible Employee has a claim for benefits that is denied or ignored, in whole or in part, the Eligible Employee may file suit in a state or federal court. In addition, if the Eligible Employee disagrees with the Plan's decision or lack thereof concerning the qualified status of a domestic relations order or a medical child support order, the Eligible Employee may file suit in federal court. If it should happen that plan fiduciaries misuse the Plan's money, or if the Eligible Employee is discriminated against for asserting the Eligible Employee's rights, the Eligible Employee may seek assistance from the U.S. Department of Labor, or the Eligible Employee may file suit in a federal court. The court will decide who should pay court costs and legal fees. If the Eligible Employee is successful the court may order the individual or entity the Eligible Employee has sued to pay these costs and fees. If the Eligible Employee loses, the court may order the Eligible Employee to pay these costs and fees, for example, if it finds the Eligible Employee's claim is frivolous.

(iv) Assistance with Questions. If an Eligible Employee has any questions about the Plan, the Eligible Employee should contact the Administrator. If an

Eligible Employee has any questions about this statement or about the Eligible Employee's rights under ERISA, or if an Eligible Employee needs assistance in obtaining documents from the Administrator, the Eligible Employee should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in the Eligible Employee's telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. The Eligible Employee may also obtain certain publications about the Eligible Employee's rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

11. Miscellaneous.

(a) Assignment; Non-transferability. No right of an Eligible Employee to any payment or benefit under this Plan shall be subject to assignment, anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Eligible Employee or of any beneficiary of the Eligible Employee. The terms and conditions of this Plan shall be binding on the successors and assigns of the Company.

(b) Funding. The Company or its Subsidiaries shall pay benefits from its general assets. No specific amount shall be set aside in advance for this purpose. Eligible Employees shall be unsecured general creditors of the Company or its Subsidiaries for purposes of benefits due hereunder.

(c) Withholding. The Company or its Subsidiaries shall have the right to deduct from all payments hereunder all taxes that the Company or its Subsidiaries determine are required by law to be withheld therefrom. Regardless of the amount withheld, the recipient of payments, benefits, or other income (including imputed income) under the Plan shall be solely responsible for all taxes owed with respect to such payments, benefits, and other income.

(d) No Right to Employment; Employment At Will. Nothing in this Plan shall be construed as giving any individual the right to be retained in the employment of the Company or its Subsidiaries, nor shall it affect the right of the Company or its Subsidiaries to dismiss an Eligible Employee without any liability except as required by this Plan. Nothing contained in this Plan shall modify a U.S.-based employee's at will employment relationship with the Company. This Plan is not a contract of employment between the Company or its Subsidiaries and any employee.

(e) Amendment and Termination. The Company, by action of the Administrator, reserves the right to amend or terminate this Plan at any time, without advance notice to any Eligible Employee and without regard to the effect of the amendment or termination on any Eligible Employee or on any other individual. Any amendment or termination of this Plan will be in writing. Notwithstanding the foregoing, the Company may not, without an Eligible Employee's written consent, terminate this Plan, or amend this Plan in any way that adversely affects the rights of any Eligible Employee who has previously experienced a Qualifying Termination. Any action of the Company in amending or terminating this Plan will be taken in a non-fiduciary capacity.

(f) Governing Law. THE VALIDITY, CONSTRUCTION, AND EFFECT OF THIS PLAN AND ANY RULES AND REGULATIONS RELATING TO THIS PLAN SHALL BE DETERMINED IN ACCORDANCE WITH THE LAWS (INCLUDING THOSE GOVERNING CONTRACTS) OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAWS, AND APPLICABLE FEDERAL LAW. If any provision hereof shall be held by a court or arbitrator of competent jurisdiction to be invalid and unenforceable, the remaining provisions shall continue to be fully effective.

(g) Arbitration. To the fullest extent permitted by law, any and all disputes, claims, and causes of action, in law or equity, arising from or relating to this Plan (including the Release, except as specifically provided in the Release) or its enforcement, performance, breach or interpretation, shall be resolved by final, binding, and confidential arbitration held in the state and county where the Eligible Employee principally worked immediately prior to the Eligible Employee's termination and conducted through Judicial Arbitration & Mediation Services ("JAMS") in accordance with the then-current JAMS Employment Arbitration Rules & Procedures (and no other JAMS rules). Judgment may be entered on the arbitrator's award in any court having jurisdiction. Nothing in this Section 11(g) is intended to prevent either the Eligible Employee or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any such arbitration. For purposes of settling any dispute or controversy arising hereunder or for the purpose of entering any judgment upon an award rendered by the arbitrator, the Company and the Eligible Employee hereby consent to the jurisdiction of the courts in the State of California. The Company and the Eligible Employee hereby waive, to the fullest extent permitted by applicable law, any objection which it may now or hereafter have to such courts' jurisdiction and any defense of inconvenient forum with respect to such courts. The Company and the Eligible Employee hereby agree that a judgment upon an award rendered by the arbitrator may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. This Section 11(g) shall not apply to any claims of violation of any federal or state employment discrimination laws.

(h) Complete Statement of Plan. This Plan document contains a complete statement of the Plan's terms and supersedes all prior statements with respect to the Plan's terms; provided, however, that notwithstanding the terms set forth in this Plan, participants in the Change in Control Plan shall continue to receive benefits under such plan to the extent that receiving such benefits does not result in the duplication of benefits under this Plan or the Change in Control Plan. No other evidence, whether written or oral, shall be taken into account in interpreting the provisions of the Plan. In the event of a conflict between a provision in this Plan document and any booklet, brochure, presentation, or other communication (whether written or oral), the provision of this Plan document shall control.

(i) Non-Duplication of Benefits. Except as explicitly provided otherwise, to the extent that an Eligible Employee is entitled to severance payments and benefits upon termination of employment pursuant to the Company's Change in Control Plan or any other change in control or severance agreements or arrangements, the Eligible Employee shall be entitled to Severance Benefits under this Plan only to the extent that they exceed the Eligible Employee's entitlements under such other plan, agreement, or arrangement.

\* \* \* \*

ADMINISTRATIVE INFORMATION REQUIRED BY ERISA	
Plan Sponsor and Administrator, including address and telephone:	Zendesk, Inc. 989 Market St. San Francisco, CA 94103 Attn: Chief People Officer INSERT PHONE
Name and address of person designated as agent for service of process:	Zendesk, Inc. 989 Market St. San Francisco, CA 94103 Attn: General Counsel
Basis on which Plan records are kept:	Calendar year: January 1 to December 31
Type of Plan:	Unfunded welfare benefit severance plan
Plan Number:	[●]
EIN:	[●]



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO EXCHANGE ACT RULE 13a-14(a) OR 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mikkel Svane, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Zendesk, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2022

By: /s/ Mikkel Svane  
Mikkel Svane  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO EXCHANGE ACT RULE 13a-14(a) OR 15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Shelagh Glaser, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Zendesk, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 29, 2022

By: /s/ Shelagh Glaser  
 Shelagh Glaser  
 Chief Financial Officer  
 (Principal Financial Officer)



**Certifications of Chief Executive Officer and Chief Financial Officer**  
**Pursuant to 18 U.S.C. Section 1350**  
**As Adopted Pursuant to**  
**Section 906 of the Sarbanes-Oxley Act of 2002**

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

/s/ Mikkel Svane

\_\_\_\_\_  
Mikkel Svane  
Chair of the Board of Directors and Chief Executive Officer  
(Principal Executive Officer)  
July 29, 2022

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

/s/ Shelagh Glaser

\_\_\_\_\_  
Shelagh Glaser  
Chief Financial Officer  
(Principal Financial Officer)  
July 29, 2022

*The foregoing certifications are not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not to be incorporated by reference into any filing of Zendesk, Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.*