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 March 31, 2020

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			**26-4411091**
(State or other jurisdiction of incorporation or organization)			(I.R.S. Employer Identification No.)
1019 Market Street	**San Francisco**	**California**	**94103**
(Address of principal executive offices)			(Zip Code)

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

Yes ☐ No ☒

As of April 30, 2020, there were 114,225,954 shares of the registrant’s common stock outstanding.

ZENDESK, INC.
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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. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- the effect of uncertainties related to the novel coronavirus and resulting COVID-19 disease pandemic on U.S. and global markets, our business, operations, revenue results, cash flow, operating expenses, demand for our solutions, sales cycles, customer retention, and our customers' businesses;
- worldwide economic conditions and their impact on information technology spending;
- our ability to attract and retain customers to use our product and platform solutions;
- our ability to optimize the pricing for our solutions;
- our future financial performance, including our revenue, cost of revenue, gross profit, operating expenses, ability to generate positive cash flow, and ability to achieve and maintain profitability;
- our ability to effectively manage our growth and future expenses;
- our ability to understand how changes in worldwide economic conditions may affect businesses of organizations of varying sizes differently;
- our ability to forecast retention of customers on contracts with monthly terms and customers who are small to midsized organizations;
- the evolution of technology affecting our product and platform solutions, services, and markets;
- our ability to securely maintain customer data;
- our ability to prevent, mitigate, and respond effectively to both historical and future data breaches;
- our ability to innovate and provide a superior customer experience;
- our ability to successfully expand in our existing markets and into new markets;
- the expenses and administrative workload associated with being a public company;
- our ability to introduce and market new solutions and to integrate such solutions into our infrastructure;
- the attraction and retention of qualified employees and key personnel;
- our ability to comply with modified or new laws and regulations applying to our business, including privacy and data security regulations;
- the sufficiency of our cash and cash equivalents and marketable securities to meet our liquidity needs;
- our ability to service the interest on our convertible notes and repay such notes, if required;
- our ability to maintain, protect, and enhance our intellectual property;
- our ability to successfully integrate people, solutions, technology, and services following completion of acquisitions;
- our ability to maintain and enhance our brand; and
- our ability to adapt to and comply with upcoming and newly effective tax regulations.

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

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, operating results, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the 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, except par value and shares)

	March 31, 2020	December 31, 2019
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 199,092	$ 196,591
Marketable securities	269,003	286,958
Accounts receivable, net of allowance for doubtful accounts of $5,796 and $2,846 as of March 31, 2020 and December 31, 2019, respectively	101,027	127,808
Deferred costs	38,215	35,619
Prepaid expenses and other current assets	45,785	45,847
Total current assets	653,122	692,823
Marketable securities, noncurrent	369,091	361,948
Property and equipment, net	103,017	102,090
Deferred costs, noncurrent	36,520	35,230
Lease right-of-use assets	96,307	89,983
Goodwill and intangible assets, net	204,093	206,883
Other assets	26,640	25,632
Total assets	$ 1,488,790	$ 1,514,589
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 26,227	$ 38,376
Accrued liabilities	42,629	36,347
Accrued compensation and related benefits	61,996	61,512
Deferred revenue	301,402	320,642
Lease liabilities	21,253	21,804
Total current liabilities	453,507	478,681
Convertible senior notes, net	490,014	483,464
Deferred revenue, noncurrent	1,941	3,320
Lease liabilities, noncurrent	86,535	83,478
Other liabilities	6,850	7,662
Total liabilities	1,038,847	1,056,605
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock	—	—
Common stock	1,139	1,130
Additional paid-in capital	1,200,521	1,155,044
Accumulated other comprehensive income (loss)	(10,152)	591
Accumulated deficit	(741,565)	(698,781)
Total stockholders' equity	449,943	457,984
Total liabilities and stockholders' equity	$ 1,488,790	$ 1,514,589

See Notes to Condensed Consolidated Financial Statements.

ZENDESK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Revenue	$ 237,475	$ 181,484
Cost of revenue (1)	59,702	55,654
Gross profit	177,773	125,830
Operating expenses (1):		
Research and development	60,421	46,791
Sales and marketing	124,310	91,700
General and administrative	34,326	31,253
Total operating expenses	219,057	169,744
Operating loss	(41,284)	(43,914)
Other income (expense), net:		
Interest income	4,570	5,472
Interest expense	(6,887)	(6,544)
Other income, net	2,334	700
Total other income (expense), net	17	(372)
Loss before provision for income taxes	(41,267)	(44,286)
Provision for income taxes	1,516	434
Net loss	$ (42,783)	$ (44,720)
Net loss per share, basic and diluted	$ (0.38)	$ (0.41)
Weighted-average shares used to compute net loss per share, basic and diluted	113,538	108,630

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

	Three Months Ended March 31,	
	2020	2019
Cost of revenue	$ 5,059	$ 4,937
Research and development	12,626	11,636
Sales and marketing	16,559	12,399
General and administrative	7,838	7,685

See Notes to Condensed Consolidated Financial Statements.

ZENDESK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2020	**2019**
Net loss	$ (42,783)	$ (44,720)
Other comprehensive income (loss), before tax:		
Net unrealized gain (loss) on available-for-sale investments	(3,395)	3,342
Net unrealized gain (loss) on derivative instruments	(7,348)	1,124
Other comprehensive income (loss), before tax	(10,743)	4,466
Tax effect	—	(1,072)
Other comprehensive income (loss), net of tax	(10,743)	3,394
Comprehensive loss	$ (53,526)	$ (41,326)

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31, 2020						Three Months Ended March 31, 2019					
	Common Stock						Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balances at beginning of period	113,081	$ 1,130	$ 1,155,044	$ 591	$ (698,781)	$ 457,984	108,037	$ 1,080	$ 950,693	$ (5,724)	$ (529,128)	$ 416,921
Issuance of common stock upon exercise of stock options	175	2	3,999	—	—	4,001	376	4	8,434	—	—	8,438
Issuance of common stock for settlement of RSUs and PRSUs	720	7	(1,904)	—	—	(1,897)	847	8	(2,425)	—	—	(2,417)
Share-based compensation	—	—	43,382	—	—	43,382	—	—	37,329	—	—	37,329
Other comprehensive income (loss), net of tax	—	—	—	(10,743)	—	(10,743)	—	—	—	3,394	—	3,394
Net loss	—	—	—	—	(42,783)	(42,783)	—	—	—	—	(44,720)	(44,720)
Balances at end of period	113,976	$ 1,139	$ 1,200,521	$ (10,152)	$ (741,565)	$ 449,943	109,260	$ 1,092	$ 994,031	$ (2,330)	$ (573,848)	$ 418,945

See Notes to Consolidated Financial Statements.

ZENDESK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities		
Net loss	$ (42,783)	$ (44,720)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	11,240	8,732
Share-based compensation	42,082	36,657
Amortization of deferred costs	9,965	6,918
Amortization of debt discount and issuance costs	6,549	6,188
Other	2,061	394
Changes in operating assets and liabilities:		
Accounts receivable	26,023	(6,966)
Prepaid expenses and other current assets	1,743	(3,774)
Deferred costs	(13,448)	(10,190)
Lease right-of-use assets	4,975	4,373
Other assets and liabilities	(232)	(498)
Accounts payable	(10,323)	15,655
Accrued liabilities	(662)	2,512
Accrued compensation and related benefits	(9,541)	(4,629)
Deferred revenue	(21,464)	12,149
Lease liabilities	(8,794)	(3,832)
Net cash provided by (used in) operating activities	(2,609)	18,969
Cash flows from investing activities		
Purchases of property and equipment	(9,938)	(9,258)
Internal-use software development costs	(3,058)	(1,213)
Purchases of marketable securities	(121,430)	(145,142)
Proceeds from maturities of marketable securities	74,231	47,265
Proceeds from sales of marketable securities	54,784	91,562
Purchases of strategic investments	(1,500)	(500)
Net cash used in investing activities	(6,911)	(17,286)
Cash flows from financing activities		
Proceeds from exercises of employee stock options	4,001	8,437
Proceeds from employee stock purchase plan	10,115	8,415
Taxes paid related to net share settlement of share-based awards	(1,897)	(2,416)
Net cash provided by financing activities	12,219	14,436
Effect of exchange rate changes on cash, cash equivalents and restricted cash	16	33
Net increase in cash, cash equivalents and restricted cash	2,715	16,152
Cash, cash equivalents and restricted cash at beginning of period	199,897	128,876
Cash, cash equivalents and restricted cash at end of period	$ 202,612	$ 145,028

Reconciliation of cash, cash equivalents and restricted cash to condensed consolidated balance sheets		
Cash and cash equivalents	$ 199,092	$ 142,418
Restricted cash included in prepaid expenses and other current assets	2,797	1,891
Restricted cash included in other assets	723	719
Total cash, cash equivalents and restricted cash	$ 202,612	$ 145,028

Supplemental cash flow data		
Cash paid for interest	$ 719	$ 719
Cash paid for taxes	$ 657	$ 700

Non-cash investing and financing activities				
Balance of property and equipment in accounts payable and accrued expenses	$	4,801	$	2,411
Property and equipment acquired through tenant improvement allowances	$	—	$	349
Share-based compensation capitalized in internal-use software development costs	$	850	$	375
Share-based compensation capitalized in deferred costs	$	404	$	297

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.

We are a software development company that provides software as a service, or SaaS, solutions that are intended to help organizations and their customers build better experiences. Our customer experience solutions are built upon a modern architecture that enables us and our customers to rapidly innovate, adapt our technology in novel ways, and easily integrate with other products and applications. With our origins in customer service, we have evolved our 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” in these notes refer to Zendesk, Inc. and its subsidiaries on a consolidated basis.

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, 2019, filed with the SEC on February 13, 2020. 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.

The consolidated balance sheet as of December 31, 2019 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, 2020.

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 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.

In December 2019, the novel coronavirus and resulting disease (“COVID-19”) was reported and in March 2020 the World Health Organization declared it a pandemic. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers and our sales cycles, and impact on our employees, as discussed in more detail the Overview section. During the quarter, this uncertainty resulted in a higher level of judgment related to our estimates and assumptions concerning variable consideration related to revenue recognition, the estimate of credit losses for accounts receivable, and impairment of strategic investments. As of the date of issuance of the financial statements, we are not aware of any specific event or circumstance that would require us to update our estimates, judgments, or revise the carrying value 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.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, net of allowance for doubtful accounts. The allowance is based upon historical loss patterns, the age of each past due invoice, and an evaluation of the potential risk of loss associated with delinquent accounts. The allowance also reflects current market conditions and reasonable and supportable forecasts of future economic conditions. As of March 31, 2020, our allowance reflects increased collectibility concerns stemming from the COVID-19 pandemic and may increase in future periods as we ascertain further impacts to our customers and business. The allowance for doubtful accounts was $6 million and $3 million as of March 31, 2020 and December 31, 2019, respectively.

Accounts receivable deemed uncollectable are charged against the allowance for doubtful accounts when identified. The balance of accounts receivable also includes contract assets, which are recorded when revenue is recognized in advance of invoicing.

Concentrations of Risk

As of March 31, 2020 and December 31, 2019, 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 months ended March 31, 2020 or 2019.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, regarding ASC Topic 740 “*Income Taxes,*” which simplifies certain aspects of accounting for income taxes. The guidance is effective for annual reporting periods beginning after December 15, 2020, including interim periods within that reporting period. Early adoption is permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board, or FASB, issued ASU 2016-13, including subsequent amendments, regarding ASC Topic 326 “*Measurement of Credit Losses on Financial Instruments,*” which modifies the accounting methodology for most financial instruments. The guidance establishes a new “expected loss model” that requires entities to estimate current expected credit losses on financial instruments by using all practical and relevant information. Additionally, any expected credit losses are to be reflected as allowances rather than reductions in the amortized cost of available-for-sale debt securities. We adopted this standard in the first quarter of 2020. The adoption did not have a material effect on our consolidated financial statements.

In connection with the adoption, for purposes of identifying and measuring impairment, the policy election was made to exclude accrued interest from both the fair value and amortized cost basis of our available-for-sale debt securities. Such accrued interest is recorded in prepaid expenses and other current assets.

In January 2017, the FASB issued ASU 2017-04, regarding ASC Topic 350 "*Simplifying the Test for Goodwill Impairment,*" which simplifies the required methodology to calculate an impairment charge for goodwill. We adopted this standard in the first quarter of 2020. The adoption did not have an effect on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, regarding ASC Topic 820 "*Fair Value Measurement,*" which modifies the disclosure requirements for fair value measurements for certain types of investments. We adopted this standard in the first quarter of 2020. The adoption did not have an effect on our consolidated financial statements.

Note 2. Business Combinations

Smooch Technologies Holdings ULC

On May 14, 2019, we completed the acquisition of Smooch Technologies Holdings ULC, or Smooch, a developer of messaging technology. We acquired Smooch for purchase consideration of $72 million in cash. In connection with the acquisition in the second quarter of 2019, we incurred transaction costs of $3 million within general and administrative expenses and share-based compensation expense of $5 million, primarily within general and administrative expenses, resulting from the accelerated vesting of certain unvested Smooch stock options because post-combination service requirements were eliminated.

The fair value of assets acquired and liabilities assumed was based on a preliminary valuation, and our estimates and assumptions are subject to change within the measurement period. The primary area that remains preliminary relates to the evaluation of certain tax-related items. The total purchase consideration was allocated to the assets acquired and liabilities assumed as set forth below (in thousands). During the three months ended March 31, 2020, we made certain immaterial adjustments to the preliminary purchase price allocation, which are reflected in the table below.

The excess of the purchase price over the net assets acquired was recorded as goodwill. Goodwill generated from the acquisition is primarily attributable to assembled workforce and expected growth from the expansion of the scope of and market opportunity for our products. Goodwill will not be amortized but instead will be tested for impairment at least annually and more frequently if certain indicators of impairment are present. As a result of the structure of the transaction, the balance of goodwill is deductible in the U.S. over 15 years for income tax purposes.

Net tangible assets	$	1,974
Net deferred tax liability		(1,194)
Identifiable intangible assets:		
Developed technology		8,000
Customer relationships		3,900
Backlog		1,000
Goodwill		58,317
Total purchase consideration	$	71,997

The developed technology, customer relationships, and backlog intangible assets were assigned useful lives of 5.5, 8.0, and 2.0 years, respectively.

In connection with the acquisition, we granted cash-based retention awards to certain employees of Smooch, which vest over a required service period. The awards will be recorded as expense and were not included in the total purchase consideration.

From the date of the acquisition, the results of operations of Smooch have been included in and are immaterial to our consolidated financial statements. Pro forma revenue and results of operations have not been presented because the historical results of Smooch are not material to our 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 March 31, 2020		
	Level 1	Level 2	Total
Corporate bonds	$ —	$ 401,130	$ 401,130
Money market funds	125,936	—	125,936
Asset-backed securities	—	118,816	118,816
U.S. Treasury securities	—	78,854	78,854
Agency securities	—	26,670	26,670
Commercial paper	—	12,624	12,624
Total	$ 125,936	$ 638,094	$ 764,030
Included in cash and cash equivalents			$ 125,936
Included in marketable securities			$ 638,094

Description	Fair Value Measurement at December 31, 2019		
	Level 1	Level 2	Total
Corporate bonds	$ —	$ 418,005	$ 418,005
Asset-backed securities	—	124,046	124,046
U.S. Treasury securities	—	94,731	94,731
Money market funds	70,455	—	70,455
Commercial paper	—	13,548	13,548
Certificates of deposit and time deposits	—	1,144	1,144
Agency securities	—	920	920
Total	$ 70,455	$ 652,394	$ 722,849
Included in cash and cash equivalents			$ 73,943
Included in marketable securities			$ 648,906

As of March 31, 2020 and December 31, 2019, there were no securities within Level 3 of the fair value hierarchy. There were no transfers between fair value measurement levels during the three months ended March 31, 2020.

As of March 31, 2020, gross unrealized gains and losses for marketable securities were $3 million and $2 million, respectively. The aggregate amortized cost basis for cash equivalents and marketable securities was $763 million and excludes accrued interest of $3 million. The aggregate fair value of securities with unrealized losses was $246 million.

As of December 31, 2019, gross unrealized gains and losses for marketable securities were $4 million and not material, respectively. The aggregate amortized cost basis for cash equivalents and marketable securities as of December 31, 2019 was $719 million and excludes accrued interest of $4 million. The aggregate fair value of securities with unrealized losses was $45 million.

Unrealized losses for securities that have been in an unrealized loss position for more than 12 months as of March 31, 2020 and December 31, 2019 were not material. 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):

	March 31, 2020	December 31, 2019
Due in one year or less	$ 269,003	$ 286,958
Due after one year and within five years	369,091	361,948
Total	$ 638,094	$ 648,906

As of March 31, 2020 and December 31, 2019, the balances of strategic investments without readily determinable fair values were $12 million and $11 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 March 31, 2020, the balance of AOCI included an unrecognized net loss of $6 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 $7 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):

	March 31, 2020			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value (Level 2)	Balance Sheet Location	Fair Value (Level 2)
Foreign currency forward contracts	Other current assets	$ 3,852	Accrued liabilities	$ 10,751
Total		$ 3,852		$ 10,751

	December 31, 2019			
	Asset Derivatives		Liability Derivatives	
Derivative Instrument	Balance Sheet Location	Fair Value (Level 2)	Balance Sheet Location	Fair Value (Level 2)
Foreign currency forward contracts	Other current assets	$ 2,385	Accrued liabilities	$ 1,975
Total		$ 2,385		$ 1,975

Our foreign currency forward contracts had a total notional value of $318 million and $260 million as of March 31, 2020 and December 31, 2019, 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. 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. As of March 31, 2020 and December 31, 2019, there was no cash collateral posted with counterparties. All derivatives have been designated as hedging instruments.

The following table presents information about our foreign currency forward contracts on our condensed consolidated statements of operations for the three months ended March 31, 2020 and 2019 (in thousands):

Classification	Gain (Loss) Reclassified from AOCI into Earnings	
	Three Months Ended March 31,	
	2020	2019
Revenue	$ 397	$ 443
Cost of revenue	(321)	(474)
Research and development	(281)	(434)
Sales and marketing	(562)	(790)
General and administrative	(174)	(276)
Total	$ (941)	$ (1,531)

The loss recognized in AOCI related to foreign currency forward contracts was $8 million and not material for the three months ended March 31, 2020 and 2019, 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 March 31, 2020, the fair value of our convertible senior notes was $686 million. The fair value was determined based on the quoted price of the convertible senior notes in an inactive market on the last traded day of the quarter and has been classified as Level 2 in the fair value hierarchy. Based on the closing price of our common stock of $64.01 on the last trading day of the quarter, the if-converted value of our convertible senior notes exceeded the principal amount of $575 million as of March 31, 2020.

Note 4. Costs to Obtain Customer Contracts

The balances of deferred costs to obtain customer contracts were $75 million and $71 million as of March 31, 2020 and December 31, 2019, respectively. Amortization expense for these deferred costs was $10 million and $7 million for the three months ended March 31, 2020 and 2019, respectively. There were no impairment losses related to these deferred costs for the periods presented.

Note 5. Property and Equipment

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

	March 31, 2020	December 31, 2019
Leasehold improvements	$ 86,593	$ 83,968
Capitalized internal-use software	40,647	38,437
Computer equipment and licensed software and patents	28,539	27,309
Furniture and fixtures	17,072	16,332
Construction in progress	10,337	8,647
Total	183,188	174,693
Less: accumulated depreciation and amortization	(80,171)	(72,603)
Property and equipment, net	$ 103,017	$ 102,090

Depreciation expense was $7 million and $5 million for the three months ended March 31, 2020 and 2019, respectively.

Amortization expense of capitalized internal-use software was $2 million for each of the three months ended March 31, 2020 and 2019. The carrying values of capitalized internal-use software as of March 31, 2020 and December 31, 2019 were $25 million and $23 million, respectively, including $9 million and $8 million in construction in progress, respectively.

Note 6. Leases

We lease office space under noncancelable operating leases with various expiration dates. Additionally, we are the sublessor for certain office space. All of our office leases are classified as operating leases with lease expense recognized on a straight-line basis over the lease term.

Lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The lease right-of-use assets also include any lease payments made and exclude lease incentives such as tenant improvement allowances. Options to extend the lease term are included in the lease term when it is reasonably certain that we will exercise the extension option.

Our operating leases typically include non-lease components such as common-area maintenance costs. We have elected to include non-lease components with lease payments for the purpose of calculating lease right-of-use assets and liabilities, to the extent that they are fixed. Non-lease components that are not fixed are expensed as incurred as variable lease payments.

Leases with a term of one year or less are not recognized on our consolidated balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

The following tables present information about leases on our consolidated balance sheet (in thousands):

	March 31, 2020	December 31, 2019
Assets		
Lease right-of-use assets	$ 96,307	$ 89,983
Liabilities		
Lease liabilities	21,253	21,804
Lease liabilities, noncurrent	86,535	83,478

As of March 31, 2020, the weighted average remaining lease term was 6.2 years and the weighted average discount rate was 4.9%.

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

	Three Months Ended March 31,	
	2020	2019
Operating lease expense	$ 6,343	$ 5,045
Short-term lease expense	185	874
Variable lease expense	1,543	885
Sublease income	(464)	(401)

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

	Three Months Ended March 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities	$ 9,552	$ 4,176
Operating lease assets obtained in exchange for new lease liabilities	11,316	19,550

As of March 31, 2020, remaining maturities of lease liabilities are as follows:

Remainder of 2020	$	18,460
2021		26,074
2022		23,744
2023		16,079
2024		7,357
Thereafter		32,748
Total lease payments		124,462
Less imputed interest		16,674
Total	$	107,788

The table above excludes future payments of $10 million related to signed leases that have not yet commenced.

Note 7. Goodwill and Acquired Intangible Assets

The changes in the carrying amount of goodwill for the three months ended March 31, 2020 are as follows (in thousands):

Balance as of December 31, 2019	$	169,647
Goodwill adjustments		15
Balance as of March 31, 2020	$	169,662

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

	As of March 31, 2020			
	Cost	Accumulated Amortization	Net	Weighted Average Remaining Useful Life
				(In years)
Developed technology	$ 39,000	$ (16,197)	$ 22,803	4.7
Customer relationships	15,210	(4,582)	10,628	4.6
Backlog	3,200	(2,200)	1,000	0.8
	$ 57,410	$ (22,979)	$ 34,431	

	As of December 31, 2019			
	Cost	Accumulated Amortization	Net	Weighted Average Remaining Useful Life
				(In years)
Developed technology	$ 39,000	$ (14,492)	$ 24,508	4.9
Customer relationships	15,210	(3,882)	11,328	4.8
Backlog	3,200	(1,800)	1,400	1.0
	$ 57,410	$ (20,174)	$ 37,236	

Amortization expense of acquired intangible assets was $3 million and $2 million for the three months ended March 31, 2020 and 2019, respectively.

Estimated future amortization expense as of March 31, 2020 is as follows (in thousands):

Remainder of 2020	$	6,505
2021		7,600
2022		7,435
2023		6,656
2024		4,615
Thereafter		1,620
	$	34,431

Note 8. 0.25% Convertible Senior Notes and Capped Call

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 “Notes”). The 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.

Each $1,000 principal amount of the 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 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 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 Notes) prior to the maturity date, holders of the 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 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. It is our current intent and policy to settle conversions through combination settlement with a specified dollar amount of $1,000 per $1,000 principal amount of Notes.

During the three months ended March 31, 2020, the conditions allowing holders of the Notes to convert were not met. The Notes are therefore not convertible during the three months ending June 30, 2020, and are classified as a noncurrent liability as of March 31, 2020. To-date, we have received one request for conversion for an immaterial amount of Notes.

In accounting for the transaction, the 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 Notes. The equity component was recorded in additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount, the “Debt Discount,” is amortized to interest expense over the contractual term of the Notes at an effective interest rate of 5.26%.

In accounting for the debt issuance costs of $14 million related to the Notes, we allocated the total amount incurred to the liability and equity components of the Notes based on their relative values. Issuance costs attributable to the liability component were $11 million and are amortized to interest expense using the effective interest method over the contractual term of the Notes. Issuance costs attributable to the equity component were netted with the equity component in additional paid-in capital.

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

	March 31, 2020	December 31, 2019
Principal	$ 575,000	$ 575,000
Unamortized Debt Discount	(77,979)	(84,037)
Unamortized issuance costs	(7,007)	(7,499)
Net carrying amount	$ 490,014	$ 483,464

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

	March 31, 2020	December 31, 2019
Debt Discount for Conversion Option	$ 124,976	$ 124,976
Issuance costs	(2,948)	(2,948)
Net carrying amount	$ 122,028	$ 122,028

Interest expense related to the Notes is as follows (in thousands):

	Three Months Ended March 31,	
	2020	2019
Contractual interest expense	$ 359	$ 356
Amortization of Debt Discount	6,057	5,751
Amortization of issuance costs	492	437
Total interest expense	$ 6,908	$ 6,544

In connection with the pricing of the Notes, we entered into privately negotiated capped call transactions with certain counterparties, the "Capped Calls." The 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 Notes. The Capped Calls have initial cap prices of $95.20 per share, subject to certain adjustments. The Capped Calls cover, 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 Capped Calls mirror conditions that result in corresponding adjustments for the Notes. The Capped Calls are generally intended to reduce or offset the potential dilution to our common stock upon any conversion of the Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. For accounting purposes, the Capped Calls are separate transactions, and not part of the terms of the Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The cost of $64 million incurred in connection with the Capped Calls was recorded as a reduction to additional paid-in capital.

The net impact to our stockholders' equity, included in additional paid-in capital, of the above components of the Notes is as follows (in thousands):

Conversion Option	$ 124,976
Purchase of Capped Calls	(63,940)
Issuance costs	(2,948)
Net deferred tax liability	(13,784)
Total	$ 44,304

Note 9. Commitments and Contingencies

Commitments

As of March 31, 2020, 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, 2019.

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, 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 has appointed a lead plaintiff and consolidated the various lawsuits into a single action (Case No. 3:19-cv-06968-CRB), and lead plaintiff filed its amended complaint on April 14, 2020 asserting the same alleged violations of securities laws as the initial complaints. The class action is still in the preliminary stages, and it is not possible for the Company to quantify the extent of potential liability to the individual defendants, if any. Management believes that the lawsuit lacks merit and intends to vigorously defend the actions. We cannot predict the outcome of or estimate the possible loss or range of loss from the above described matter.

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, labor and employment rights, defamation, 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 March 31, 2020 and December 31, 2019, there were 400 million shares of common stock authorized for issuance with a par value of $0.01 per share and 114.0 million and 113.1 million shares were issued and outstanding, respectively.

Preferred Stock

As of each of March 31, 2020 and December 31, 2019, 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 our Employee Stock Purchase Plan, or 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 an offering period or the fair market value of our common stock at the end of the purchase period. During the three months ended March 31, 2020, no 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 1.1 million shares on January 1, 2020. As of March 31, 2020, 5.5 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, or 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, or 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 5.7 million shares on January 1, 2020. As of March 31, 2020, we had 15.7 million shares of common stock available for future grants under the 2014 Plan.

On May 6, 2016, the compensation committee of our board of directors granted equity awards representing 1.2 million shares of common stock. These awards were granted outside of the 2014 Plan pursuant to an exemption provided for “employment inducement awards” within the meaning of Section 303A.08 of the New York Stock Exchange Listed Company Manual and accordingly did not require approval from our stockholders.

A summary of our share-based award activity for the three months ended March 31, 2020 is as follows (in thousands, except per share information):

		Options Outstanding				RSUs Outstanding		
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value	Outstanding RSUs	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
				(In years)				
Outstanding — January 1, 2020	11,613	4,860	$ 24.08	5.85	$ 255,536	5,361	$ 55.00	$ 410,804
Increase in authorized shares	5,654							
Stock options granted	(456)	456	88.73					
RSUs granted	(1,398)					1,398	83.85	
Stock options exercised		(175)	22.93					
RSUs vested						(694)	49.96	
Stock options forfeited or canceled	12	(12)	30.18					
RSUs forfeited or canceled	212					(212)	55.23	
RSUs forfeited or canceled and unavailable for grant						(7)	23.44	
PRSUs forfeited	25							
Outstanding — March 31, 2020	15,662	5,129	$ 29.85	5.97	$ 189,715	5,846	$ 62.53	$ 374,201

The restricted stock units, or RSUs, forfeited or canceled and unavailable for grant relate to our employment inducement awards. 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 three months ended March 31, 2020 and 2019 was $10 million and $21 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 three months ended March 31, 2020 and 2019 was $31.63 and $28.65, respectively.

The total fair value of RSUs vested during the three months ended March 31, 2020 and 2019 was $55 million and $63 million, respectively. The fair value of RSUs vested represents market value on the vesting date. The weighted-average grant date fair value of RSUs granted during the three months ended March 31, 2020 and 2019 was $83.85, and $64.88, respectively.

As of March 31, 2020, we had a total of $385 million in future expense related to our stock options and RSUs to be recognized over a weighted average period of 2.9 years.

Performance Restricted Stock Units

During the three months ended September 30, 2018**,** the compensation committee of our board of directors granted performance-based restricted stock units, or PRSUs, representing 0.2 million shares of common stock, the substantial majority of which were granted in connection with the acquisition of FutureSimple Inc. The PRSUs vest in four semi-annual tranches through March 2021. The PRSUs include a service condition and a performance condition related to the attainment of semi-annual performance targets approved and communicated in advance of each performance period. For each of the three months ended March 31, 2020 and 2019, we recorded $1 million of share-based compensation expense related to the PRSUs. For the three months ended March 31, 2020 and 2019, 26 thousand and no PRSUs were vested, respectively. The total future expense related to the PRSUs will be based on the fair value of the underlying shares on the grant date for each performance tranche.

Note 11. Deferred Revenue and Performance Obligations

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

	Three Months Ended March 31,	
	2020	2019
Balance, beginning of period	$ 323,962	$ 247,962
Billings	216,856	193,118
Subscription and services revenue	(224,059)	(172,852)
Other revenue*	(13,416)	(8,632)
Balance, end of period	$ 303,343	$ 259,596

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

For the three months ended March 31, 2020 and 2019, the majority of revenue recognized was from the deferred revenue balances at the beginning of each period.

The aggregate balance of remaining performance obligations as of March 31, 2020 was $673 million. We expect to recognize $489 million of the balance as revenue in the next 12 months and the remainder thereafter. 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 cancelable 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 March 31,	
	2020	2019
Net loss	$ (42,783)	$ (44,720)
Weighted-average shares used to compute basic and diluted net loss per share	113,538	108,630
Net loss per share, basic and diluted	$ (0.38)	$ (0.41)

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

	As of March 31,	
	2020	2019
Shares subject to outstanding common stock options and employee stock purchase plan	5,429	6,167
Restricted stock units	5,846	7,028
Shares related to convertible senior notes	1,749	1,283
	13,024	14,478

The shares related to convertible senior notes in the table above are calculated based on the average market price of our common stock for the three months ended March 31, 2020 and 2019, respectively.

We expect to settle the principal amount of the convertible senior notes in cash and therefore use the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread has a dilutive impact on diluted net income per share when the average market price of our common stock for a given reporting period exceeds the initial conversion price of $63.07 per share for the convertible senior notes. Based on

the initial conversion price, potential dilution related to the convertible senior notes is approximately 9.1 million shares. The convertible senior notes will not be convertible during the three months ending June 30, 2020.

Note 13. Income Taxes

We reported $2 million and immaterial income tax expense for the three months ended March 31, 2020 and 2019, 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 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 March 31,	
	2020	2019
United States	$ 124,037	$ 94,901
EMEA	67,919	52,075
APAC	25,575	19,476
Other	19,944	15,032
Total	$ 237,475	$ 181,484

Long-Lived Assets

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

	As of March 31, 2020	As of December 31, 2019
United States	$ 98,152	$ 91,532
EMEA:		
Republic of Ireland	41,210	42,500
Other EMEA	3,274	3,725
Total EMEA	44,484	46,225
APAC:		
Singapore	24,393	25,988
Other APAC	7,119	5,362
Total APAC	31,512	31,350
Other	471	417
Total	$ 174,619	$ 169,524

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

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, 2019, filed with the SEC on February 13, 2020. 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 software development company that provides software as a service solutions that are intended to help organizations and their customers build better experiences. Our customer experience solutions are built upon a modern architecture that enables us and our customers to rapidly innovate, adapt our technology in novel ways, and easily integrate with other products and applications. With our origins in customer service, we have evolved our 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.

We believe in developing solutions that serve organizations of all sizes and across all industries. Our flagship product solution, 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 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 phone 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. For an omnichannel solution which provides Support, Chat, Talk, and Guide together for a single price, we offer the Zendesk Support Suite.

We additionally offer Zendesk Sell, sales customer relationship management software that complements our mission in delivering solutions that provide a better customer experience, the Zendesk Sell Suite, an omnichannel solution which provides Sell and Chat among other features and functionality together for a single price, Zendesk Gather, a product solution that enables companies to provide trusted and transparent support to customers through online community forums, Zendesk Duet, an offering which provides Support and Sell together for a single price, 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 March 31, 2020 and 2019, our revenue was $237 million and $181 million, respectively, representing a 31% growth rate. For the three months ended March 31, 2020 and 2019, we derived $113 million, or 48%, and $87 million, or 48%, 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 March 31, 2020 and 2019, we generated net losses of $43 million and $45 million, respectively.

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, 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, including uncertainties related to the COVID-19 pandemic. We anticipate that we will continue to expand our operations. The expected expenditures that we anticipate will be necessary to manage our anticipated growth, including personnel costs, expenditures relating to hosting capabilities, leasehold improvements, and related fixed assets, 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 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. 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.

COVID-19 Update

In December 2019, a novel coronavirus and the resulting disease (“COVID-19”) was reported, and in January 2020, the World Health Organization (“WHO”) declared it a Public Health Emergency of International Concern. In February 2020, the WHO raised its assessment of the COVID-19 threat from high to very high at a global level due to the continued increase in the number of cases and affected countries, and in March 2020, the WHO characterized COVID-19 as a pandemic. We are still ascertaining the impact of the COVID-19 pandemic on our business and the full effect on our results of operations in future quarters is uncertain, but in the near to intermediate term, we expect our financial performance to be impacted by the economic crisis arising from COVID-19. As always, we are focused on supporting our employees, customers, and community. We have implemented business continuity plans to ensure we take care of the health and safety of our employees while continuing to drive innovation in customer experience solutions for our customers.

Since the advent of the COVID-19 pandemic, we have begun to identify some of the initial major impacts of COVID-19, and as of the date of this filing, those impacts can generally be grouped in the following categories:

- ***Employee health and safety***. As of the time of filing, we have required all of our employees globally to work remotely, in order to minimize the spread of COVID-19 among our employee base and to comply with local regulations within the United States and internationally. We have invested resources in supporting our employees in a shift to remote work, including providing supplemental home office hardware, enabling employees' remote access to benefits (such as telemedicine), and providing a well-being and care stipend of $1,000 to each employee except for our executive officers, senior vice presidents, and any employees senior to senior vice presidents. While we have not observed significant impacts to the productivity of our workforce, we have a limited history of remote working and the long-term impact on, and the resulting types of continuing investments for, our employee base is uncertain.

- ***Changing customer needs***. Many of our customers and their needs have been significantly impacted by the COVID-19 pandemic, and we are continuing to adapt to those needs. As commercial, personal, and social spheres continue to increasingly rely on online interactions and experiences worldwide, some of our customers' products have seen increased usage, resulting in a greater demand on our hosting infrastructure and requiring increased attention from our advocacy teams to enable those customers to effectively use our solutions across existing and new use cases. Conversely, due to pressures on cash flow, our customers who have faced decreased demand for their products and services may and have resulted in lower demand

for usage of our solutions. Potential customers may and have chosen to delay their decisions to purchase our solutions as organizations reassess their ability to pay for business software. In an effort to retain and assist customers facing challenges during this time, for certain customers who have requested the ability to pay for our solutions over a longer time period or at a lower rate for usage of our solutions, we have provided modified invoicing and subscription terms.

We expect the COVID-19 pandemic to impact our ability to attract and retain organizations of all sizes. Towards the end of the quarter ended March 31, 2020, we began to see an increase in contraction among customers who are small to midsized organizations. This trend has continued into the beginning of the period ending June 30, 2020, and we expect contraction among such customers to continue to outpace historical trends. We are continuing to understand the long-term net effect and anticipated future magnitude of the above factors on our results for future periods and such forecasts are inherently uncertain.

- ***Evolving our organizational focus***. In light of the need for organizations worldwide to assess an increasing reliance on online interactions resulting from COVID-19, we believe that our product and platform solutions will continue to play an increasingly essential role in customer experience for both current and potential customers. As some of our customers demonstrate a greater need to deploy customer experience solutions quickly and for new use cases, we believe in continuing our focus on providing solutions that are easy to implement, use, and scale, and have a quick time to value. We will increase our focus on those core strengths as we continue to understand the various impacts the COVID-19 pandemic has and will have on our business community.

Additionally, due to the concerns over the COVID-19 pandemic, we canceled our in-person 2020 Relate user conference event in March 2020 and replaced it with a digital event. The broader implications of COVID-19 on our employees, our results of operations, and overall financial performance remain uncertain. We may experience curtailed customer demand for our solutions that could materially adversely impact our business, results of operations, and overall financial performance in future periods. We may experience deferred buying decisions from customers and increased contraction in, and churn of, our existing customer base. While our revenue can be relatively predictable as a result of our subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods. 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.

Number of Paid Customer Accounts. We believe that our ability to increase our number of paid accounts using our solutions is an indicator of our market penetration, the growth of our business, and our potential future business opportunities. We define the number of paid customer accounts as the sum of the number of accounts on Zendesk Support, exclusive of our legacy Starter plan, free trials, or other free services, the number of accounts on Chat, exclusive of free trials or other free services, and the number of accounts on all of our other products, exclusive of free trials and other free services, each as of the end of the period and as identified by a unique account identifier.

In the three months ended June 30, 2018, we began to offer an omnichannel subscription, which provides access to multiple solutions through a single paid customer account, Zendesk Suite, and in the three months ended June 30, 2019, we began to offer a subscription which provides access to Sell and Support through a single paid customer account, Zendesk Duet. In the three months ended March 31, 2020, we began to offer two new omnichannel subscriptions, the Zendesk Support Suite and the Zendesk Sell Suite, which provide access to multiple support solutions and sales solutions, respectively, through a single paid customer account. The number of Support Suite paid customer accounts are included in the number of paid customers on Suite, which are included in the number of paid customer accounts on products other than Support and Chat, and are not included in the number of paid customer accounts on Support or Chat. The number of Sell Suite paid customer accounts are included in the number of paid customer accounts on products other than Support and Chat, and are not included in the number of paid customer accounts on Support or Chat. Each Duet paid customer account is included once in the number of paid customer accounts on Support and once in the number of paid customer accounts on products other than Support and Chat.

Existing customers may also expand their utilization of our products by adding new accounts and a single consolidated organization or customer may have multiple accounts across each of our products to service separate subsidiaries, divisions, or work processes. Other than usage of our products through our omnichannel subscription offering, each of these accounts is also treated as a separate paid customer account. Other than paid accounts for Zendesk Connect, our marketing automation offering, an increase in the number of paid customer accounts generally correlates to an increase in the number of authorized agents

licensed to use our products, which directly affects our revenue and results of operations. We view growth in this metric as a measure of our success in converting new sales opportunities. We had approximately 160,600 paid customer accounts as of March 31, 2020, including approximately 82,600 paid customer accounts on Support, approximately 41,800 paid customer accounts on Chat, and approximately 36,100 paid customer accounts on our other products. As the total number of paid customer accounts increases, we expect the rate of growth in the number of paid customer accounts to decline.

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 paid customer account, 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 paid customer account, upgrades in subscription plans, and the purchase of additional products as offset by churn and contraction in authorized agents associated with a paid customer account, 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 paid customer accounts on our products. Annual recurring revenue is determined by multiplying monthly recurring revenue by12. Monthly recurring revenue for a paid customer account is a legal and contractual determination made by assessing the contractual terms of each paid customer account, as of the date of determination, as to the revenue we expect to generate in the next monthly period for that paid customer account, 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. Beginning with the three months ended June 30, 2019, we excluded 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. Monthly recurring revenue is not determined by reference to historical revenue, deferred revenue, or any other United States generally accepted accounting principles, or GAAP, financial measure over any period. It is forward-looking and contractually derived as of the date of determination.

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 paid customer accounts 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 is also adjusted to eliminate the effect of certain activities that we identify involving consolidation of customer accounts, or the split of a single paid customer account into multiple paid customer accounts. In addition, our dollar-based net expansion rate is adjusted to include paid customer accounts in the customer base used to determine retained revenue net of contraction and churn that share common corporate information with customers in the customer base that is used to determine our base revenue. Giving effect to this consolidation would result in our dollar-based net expansion rate being calculated across approximately 107,200 customers, as compared to the approximately 160,600 total paid customer accounts as of March 31, 2020. To the extent that we can determine that the underlying customers do not share common corporate information, we do not aggregate paid customer accounts associated with reseller and other similar channel arrangements for the purposes of determining our dollar-based net expansion rate. While not material, we believe the failure to account for these activities would otherwise skew our dollar-based net expansion metrics associated with customers that maintain multiple paid customer accounts across their products and paid customer accounts associated with reseller and other similar channel arrangements.

Our dollar-based net expansion rate was 115% as of March 31, 2020. We expect that, among other factors, our continued focus on adding larger paid customer accounts 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 Support and, to a lesser extent, Chat, Talk, Guide, and Sell, and includes related support services. We also derive revenue from Support Suite, which provides a subset of these solutions for a single price. 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 pl

ans 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 (including salaries, share-based compensation, and benefits) for employees associated with our infrastructure, product support, and professional service organizations, and expenses for hosting capabilities, primarily for third-party managed hosting services and costs associated with our self-managed colocation data centers. 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 utilize third-party managed hosting facilities located in North America, Europe, Asia and Australia to host our services, support our infrastructure, and support certain research and development functions. In the first quarter of 2019, we completed the transition of our customers from self-managed colocation data centers to third-party managed hosting services.

We intend to continue to invest additional resources in our infrastructure, professional service organizations, 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, investments to expand our product support and professional services teams, investments in additional personnel, increased share-based compensation expense, 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 (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 modestly 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 (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 both 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 the 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, building brand awareness, and sponsoring additional marketing events, 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 (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, 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, and the infrastructure required to be a public company. Such costs include increases in our finance, legal, and human resources personnel, additional legal, accounting, tax, and compliance-related services fees, insurance costs, and costs of executing significant transactions, including business acquisitions, and other costs associated with being a public company. As a result, we expect our general and administrative expenses to continue to increase in absolute dollars for the foreseeable future. However, we expect our general and administrative expenses to decrease modestly 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 extent of our general and administrative expenses.

Other Income (Expense), Net

Other income (expense), net consists primarily of interest income from marketable securities, 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:

	Three Months Ended March 31,	
	2020	2019
Revenue	$ 237,475	$ 181,484
Cost of revenue (1)	59,702	55,654
Gross profit	177,773	125,830
Operating expenses (1):		
Research and development	60,421	46,791
Sales and marketing	124,310	91,700
General and administrative	34,326	31,253
Total operating expenses	219,057	169,744
Operating loss	(41,284)	(43,914)
Other income (expense), net:		
Interest income	4,570	5,472
Interest expense	(6,887)	(6,544)
Other income, net	2,334	700
Total other income (expense), net	17	(372)
Loss before provision for income taxes	(41,267)	(44,286)
Provision for income taxes	1,516	434
Net loss	$ (42,783)	$ (44,720)

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

	Three Months Ended March 31,	
	2020	2019
Cost of revenue	$ 5,059	$ 4,937
Research and development	12,626	11,636
Sales and marketing	16,559	12,399
General and administrative	7,838	7,685

	Three Months Ended March 31,	
	2020	2019
Revenue	100.0 %	100.0 %
Cost of revenue (2)	25.1	30.7
Gross profit	74.9	69.3
Operating expenses (2):		
Research and development	25.4	25.8
Sales and marketing	52.3	50.5
General and administrative	14.5	17.2
Total operating expenses	92.2	93.5
Operating loss	(17.3)	(24.2)
Other income (expense), net:		
Interest income	1.9	3.0
Interest expense	(2.9)	(3.6)
Other income, net	1.0	0.4
Total other income (expense), net	—	(0.2)
Loss before provision for income taxes	(17.3)	(24.4)
Provision for income taxes	0.6	0.2
Net loss	(17.9)%	(24.6)%

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

	Three Months Ended March 31,	
	2020	2019
Cost of revenue	2.1%	2.7%
Research and development	5.3	6.4
Sales and marketing	7.0	6.8
General and administrative	3.3	4.2

Revenue

	Three Months Ended March 31,		
	2020	2019	% Change
	(In thousands, except percentages)		
Revenue	$ 237,475	$ 181,484	31%

Revenue increased $56 million, or 31%, in the three months ended March 31, 2020 compared to the same period in 2019. The increase was primarily due to an increase in the number of paid customer accounts, which grew from approximately 145,600 as of March 31, 2019 to approximately 160,600 as of March 31, 2020 and expansions from existing customers, as reflected in our dollar-based net expansion rate of 115% as of March 31, 2020.

Cost of Revenue and Gross Margin

	Three Months Ended March 31,		
	2020	2019	% Change
	(In thousands, except percentages)		
Cost of revenue	$ 59,702	$ 55,654	7%
Gross margin	74.9%	69.3%	

Cost of revenue increased $4 million, or 7%, in the three months ended March 31, 2020, compared to the same period in 2019. The overall increase was primarily due to increased employee compensation-related costs, driven by headcount growth, increased hosting costs, and increased third-party license fees. The increase in hosting costs was driven by an increase in expenditures for third-party managed hosting services, and the increase in third-party license fees was driven by increased customer usage of certain product features. Further contributing to the overall increase was an increase in allocated shared facilities and information technology costs.

Our gross margin increased by 5.6 percentage points in the three months ended March 31, 2020, compared to the same period in 2019, driven primarily by increased optimization of our personnel costs in our product support organization and efficiency from our hosting infrastructure, including our transition to third-party managed hosting services.

Operating Expenses

Research and Development Expenses

	Three Months Ended March 31,		
	2020	2019	% Change
	(In thousands, except percentages)		
Research and development	$ 60,421	$ 46,791	29%

Research and development expenses increased $14 million, or 29%, in the three months ended March 31, 2020, compared to the same period in 2019. The overall increase was primarily due to increased employee compensation-related costs

of $9 million, driven by headcount growth. Further contributing to the overall increase was an increase in allocated shared costs of $3 million.

Sales and Marketing Expenses

	Three Months Ended March 31,		
	2020	2019	% Change
	(In thousands, except percentages)		
Sales and marketing	$ 124,310	$ 91,700	36%

Sales and marketing expenses increased $33 million, or 36%, in the three months ended March 31, 2020, compared to the same period in 2019. The overall increase was primarily due to increased employee compensation-related costs, including amortization of deferred commissions, of $23 million, driven by headcount growth, and an increase in marketing program costs of $4 million. The increase in marketing program costs was primarily driven by increased volume of marketing and advertising activities. Further contributing to the overall increase was an increase in allocated shared costs of $5 million.

General and Administrative Expenses

	Three Months Ended March 31,		
	2020	2019	% Change
	(In thousands, except percentages)		
General and administrative	$ 34,326	$ 31,253	10%

General and administrative expenses increased $3 million, or 10%, in the three months ended March 31, 2020, compared to the same period in 2019. The overall increase was primarily due to increased employee compensation-related costs, driven by headcount growth, and increased allowance for doubtful accounts, driven by customer collections concerns stemming from the COVID-19 pandemic. Further contributing to the overall increase was an increase in allocated shared costs.

Other Income (Expense), Net

	Three Months Ended March 31,		
	2020	2019	% Change
	(In thousands, except percentages)		
Interest income	$ 4,570	$ 5,472	(16)%
Interest expense	(6,887)	(6,544)	5 %
Other income, net	2,334	700	*

* not meaningful

Interest income decreased by $1 million in the three months ended March 31, 2020, compared to the same period in 2019, primarily due to a decrease in interest rates. Other income, net increased by $2 million primarily due to foreign exchange gains resulting from general appreciation of the U.S. dollar.

Liquidity and Capital Resources

As of March 31, 2020, our principal sources of liquidity were cash, cash equivalents, and marketable securities totaling $837 million, which were held for working capital and general corporate purposes. Our cash equivalents and marketable securities are comprised of corporate bonds, money market funds, asset-backed securities, U.S. Treasury securities, agency securities, and commercial paper.

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

	Three Months Ended March 31,	
	2020	2019
Net cash provided by (used in) operating activities	$ (2,609)	$ 18,969
Net cash used in investing activities	(6,911)	(17,286)
Net cash provided by financing activities	12,219	14,436

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 Risk Factors. 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 consolidated financial statements for more information). The impact of the convertible senior 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. We currently intend to settle the principal amount of any converted convertible senior notes in cash. As of the date of this filing, we have received one request for conversion for an immaterial amount. The convertible senior notes are not convertible during the three months ending June 30, 2020.

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 expansion of sales and marketing activities, the introduction of new and enhanced solutions, features, and functionality, and costs related to building out our 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 used in operating activities in the three months ended March 31, 2020 was $3 million, reflecting our net loss of $43 million, adjusted by non-cash charges including share-based compensation expense of $42 million, depreciation and amortization of $11 million, amortization of deferred costs of $10 million, amortization of debt discount and issuance costs of $7 million, and net changes in operating assets and liabilities of $32 million. The net outflow from changes in operating assets and liabilities was primarily attributable to a decrease in deferred revenue of $21 million, driven by the amount and timing of bookings, and a change in our billing policy to invoice customers on the renewal date rather than 30 days in advance, effective in the first quarter of 2020. The net outflow was also due to an increase in deferred costs of $13 million, primarily including sales commissions, a decrease in accounts payable of $10 million due to timing of payments, and a decrease in accrued compensation and related benefits of $10 million. These cash outflows were partially offset by a decrease in accounts receivable of $26 million, driven by the same factors described above for deferred revenue, and a decrease in prepaid expenses and other current assets of $2 million.

Net cash provided by operating activities in the three months ended March 31, 2019 was $19 million, reflecting our net loss of $45 million, adjusted by non-cash charges including share-based compensation expense of $37 million, depreciation and amortization of $9 million, amortization of deferred costs of $7 million, amortization of debt discount and issuance costs of $6 million, and net changes in operating assets and liabilities of $5 million. The net inflow from changes in operating assets and liabilities was primarily attributable to an increase in accounts payable of $16 million due to timing of payments and an increase in deferred revenue of $12 million due to sales growth and the timing of customer billings. These sources of cash flow were primarily offset by an increase in deferred costs of $10 million, primarily including sales commissions, and an increase in accounts receivable of $7 million due to the timing of customer billings and collections.

Investing Activities

Net cash used in investing activities in the three months ended March 31, 2020 of $7 million was primarily attributable to purchases of property and equipment of $10 million, primarily associated with leasehold improvements for newly leased office facilities, capitalized internal-use software costs of $3 million related to the development of additional features and functionality for our platform, and strategic investment purchases of $2 million, partially offset by proceeds from sales and maturities of marketable securities of $8 million, net of purchases.

Net cash used in investing activities in the three months ended March 31, 2019 of $17 million was primarily attributable to purchases of marketable securities of $6 million, net of sales and maturities, purchases of property and equipment of $9 million, primarily associated with leasehold improvements for newly leased office facilities, and capitalized internal-use software costs of $1 million related to the development of additional features and functionality for our platform.

Financing Activities

Net cash provided by financing activities in the three months ended March 31, 2020 of $12 million was primarily attributable to proceeds from our employee stock purchase plan of $10 million and proceeds from exercises of employee stock options of $4 million, partially offset by payments for withholding taxes related to net share settlement of RSUs of $2 million.

Net cash provided by financing activities in the three months ended March 31, 2019 of $14 million was primarily attributable to proceeds from our employee stock purchase plan of $8 million, and proceeds from exercises of employee stock options of $8 million, partially offset by payments for withholding taxes related to net share settlement of RSUs of $2 million.

Critical Accounting Polices 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, 2019, filed with the SEC on February 13, 2020, 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.

Contractual Obligations and Other Commitments

Our principal commitments 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. There were no material changes to our commitments under contractual obligations from those disclosed in our audited consolidated financial statements for the year ended December 31, 2019.

Off-Balance Sheet Arrangements

Through March 31, 2020, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

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, 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 March 31, 2020, 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 $837 million as of March 31, 2020, of which $764 million was invested in corporate bonds, money market funds, asset-backed securities, U.S. Treasury securities, agency securities, and commercial paper. 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 our portfolio of 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. However, because we classify our debt securities as "available for sale," no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary.

As of March 31, 2020, 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 $6 million. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur. Fluctuations in the value of our cash equivalents and portfolio of marketable securities (gains or losses on the carrying value) are recorded in other comprehensive income, and losses are realized based on an assessment of whether declines in value are related to deterioration in credit risk, whether we expect to recover the entire amortized cost basis of the security, our intent to sell, and whether it is more likely than not that we will be required to sell the securities before the recovery of their cost basis.

We had non-controlling equity investments in privately held companies totaling $12 million as of March 31, 2020. 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 value of these investments exceed their fair values.

In March 2018, we issued $575 million aggregate principal amount of 0.25% convertible senior notes due 2023. The fair value of our convertible senior notes is subject to interest rate risk, market risk and other factors due to the conversion feature. The fair value of the convertible senior 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 value of our convertible senior notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we carry the convertible senior 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 March 31, 2020 and the estimated impact on the fair value of the convertible senior notes (in thousands). 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 convertible senior notes.

Hypothetical change in Zendesk stock price	Fair value	Estimated change in fair value	Hypothetical percentage increase (decrease) in fair value
10% increase	$ 732,907	$ 47,277	6.9 %
No change	$ 685,630	$ —	— %
10% decrease	$ 640,263	$ (45,367)	(6.6)%

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 Securities Exchange Act of 1934, as amended, or 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 Securities and Exchange Commission'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

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, 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 has appointed a lead plaintiff and consolidated the various lawsuits into a single action (Case No. 3:19-cv-06968-CRB), and lead plaintiff filed its amended complaint on April 14, 2020 asserting the same alleged violations of securities laws as the initial complaints. The class action is still in the preliminary stages, and it is not possible for the Company to quantify the extent of potential liability to the individual defendants, if any. Management believes that the lawsuit lacks merit and intends to vigorously defend the actions. We cannot predict the outcome of or estimate the possible loss or range of loss from the above described matter.

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.

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 report 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.

Risks Related to Our Business

We derive, and expect to continue to derive, substantially all of our revenue and cash flows from Support. If we fail to adapt this product to changing market dynamics and customer preferences or to 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 or from sales of subscriptions to our product solutions primarily resulting from an interest in Support. As such, the

market acceptance of this product solutions 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, technological change, 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 profoundly impact the market for our software and blur distinctions between traditionally separate systems for customer support, customer engagement and retention software, sales force automation, marketing automation, messaging, 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.

The recent global COVID-19 outbreak could harm our business, results of operations, and financial condition.

In March 2020, the World Health Organization declared the novel coronavirus and resulting COVID-19 disease ("COVID-19") a global pandemic. This contagious disease outbreak, which has continued to spread, and the related adverse public health developments, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, customers, economies, and financial markets globally. In light of the uncertain and rapidly evolving situation relating to the spread of COVID-19, we have taken precautionary measures, including imposing travel restrictions for our employees, mandating a global work from home policy, and shifting customer events to virtual-only experiences. 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.

In addition, COVID-19 may 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 outbreak of COVID-19 could adversely affect economies and financial markets globally, potentially leading to an economic downturn, which could decrease technology spending and adversely affect demand for our offerings and harm our business and results of operations.

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.

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 $43 million and $45 million in the three months ended March 31, 2020 and 2019, respectively. We had an accumulated deficit of $742 million as of March 31, 2020. For the three months ended March 31, 2020 and 2019, our revenue was $237 million and $181 million, respectively, representing a 31% 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 to appeal to as many types of organizations as possible, including investments in our research and development team, improvements to the scalability, availability, and security of our solutions,
- the development or acquisition of new product and platform solutions, features, and functionality;
- investments in our customer success program to ensure retention of current customers and expansion of use cases for our products with those customers;
- the integration of acquired products into our platform;
- enhancements to our network operations and infrastructure;
- sales and marketing;
- continued international investment in an effort to increase our customer base and sales; 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.

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 March 31, 2020, our sales and marketing organization increased by approximately 430 employees to approximately 1,470 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. Our recent hires and planned hires may not become as productive as we anticipate as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the future in the markets where we do business. In territories outside the United States, recruiting and retention of our sales personnel may become increasingly difficult and costly, affecting our ability to compete in such jurisdictions.

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 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.

In addition, larger organizations may demand more features and integration services as we release solutions that are designed for larger organizations. 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. We may not be able to devote sufficient resources to developing features and functionality in our solutions that are exclusively in demand by large organizations, which may negatively affect our potential sales to those organizations.

We have limited experience in developing and managing sales channels and distribution arrangements for larger organizations. As we target 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. As a result of these factors, these sales opportunities 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. Additionally, larger organizations generally have a greater amount of resources than smaller organizations to dedicate to building internal products that provide more functionality than or replace our product and platform solutions, which may result in a decreased need for our solutions and a decreased need to renew a subscription to those solutions, each of which would have a negative effect on our results of operations.

Support and sales to larger organizations generally require different types of personnel and investments than those required to support sales to smaller organizations, and our costs may rise as we aim to fulfill both types of requirements. We may additionally become increasingly reliant on our professional services to customize our offerings as we offer more features and functionality that are geared towards larger organizations, which may disproportionately require greater focus of internal resources on a smaller number of customers. Larger organizations also may have larger international operations and accordingly require us to divert resources to international regions in which we may not have sufficient personnel, affecting our results of operations.

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

The market for customer experience solutions is fragmented, rapidly evolving, and highly competitive, with relatively low barriers to entry. Among the small to midsized 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, pen and paper, text editors, and spreadsheets for tracking and management. In addition, we compete with a number of other SaaS providers with focused applications 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 Kustomer, Inc. As a result, small to midsized organizations are able to switch to one of our competitors relatively easily. Because a significant portion of our revenue is comprised of customers on monthly terms and a significant number of such customers are small to midsized organizations, we may be unable to effectively predict the effect of competitors on our revenue results. 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 Support Suite and Sell Suite solutions, which will negatively affect our competitiveness 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, decreasing our ability to compete successfully with such vendors. Further, many of our competitors have a substantial international presence. As we continue to invest in selling and marketing our solutions in those regions, we may find it increasingly difficult to compete effectively across multiple international regions.

Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. With the introduction of new technologies, the evolution of our solutions, and new market entrants, we expect competition to intensify in the future. The market demands among small to midsized organizations can vary greatly, and 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, resulting in a decreased ability for us to increase our marketing pipeline or sales. New entrants or current competitors may be able to develop products that mimic our new product releases and sell those products at a low price, which may result in reduced sales for our solutions. As organizations look to adapt and change to the new macroeconomic environment following the impact of COVID-19, particularly as new use cases are discovered for remote work and organizations shift to online solutions, we may not be able to develop sufficient features and functionality or adapt our product and platform solutions quickly enough to address those organizations' changing needs.

We face competition from in-house software systems, large integrated systems vendors, and smaller companies offering alternative SaaS applications. Our competitors vary in size and in the breadth and scope of the products and services they offer. 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, particularly if companies look to decreases their expenditures for external solutions in an uncertain economic environment. 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. 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, or would make, it more difficult for us to compete with them. As our offerings have additionally expanded to adjacent markets, such as sales force automation and platform-based features and functionality, in which we may not have the operational history or familiarity, we may find it di

fficult 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.

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 have elected 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 midsized organizations, and because small and midsized 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 (such as changes that may arise from the impact of COVID-19). Because a significant portion of the subscriptions to our solutions are comprised of such revenue, our results would be accordingly harmed. Our future success is also 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 may require increasingly sophisticated and costly sales efforts and may not result in additional sales.

We additionally have a limited operating history with respect to more recent subscription offerings such as the Support Suite and the Sell Suite. The combination of multiple offerings with similar solutions may be unclear and difficult to market to our potential customers, resulting in a lower marketing pipeline. The Support Suite and the Sell Suite each provide a combination of solutions at an overall discounted price, and our limited history of those discounts and how they interact with one another may result in a decreased predictability in future subscription revenue.

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, mergers and acquisitions affecting our customer base, the effects of global economic conditions, or reductions in our customers’ spending levels. For example, the impact of COVID-19 on the current economic environment has caused, and may in the future cause, customers to request the ability to pay for our solutions over a longer time period or request a lower rate for usage of our solutions. 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, or fail to purchase subscriptions to additional solutions, our revenue may decline, and we may not realize improved operating results from our customer base. A substantial proportion of our revenue derives from subscriptions to additional solutions by existing customers to expand their usage of our solutions. We believe that a customer's decision to expand usage of our solutions can be impacted by a greater number of factors compared to the number of factors which can affect the initial adoption of Support. As the composition of our customer base becomes increasingly composed of larger organizations and we accordingly become increasingly dependent on such larger organizations choosing to expand their usage of our solutions, our results of operations may become harder to predict.

Additionally, as we expand our offerings to increasingly 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 arrangement, the negative impact on our results and operations will accordingly be increasingly larger.

If we are not able to develop enhancements to our product and platform 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 product and platform solutions and to introduce new solutions and services. 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 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. Those expectations will continue to evolve and the resources required to continue to maintain reliable and secure solutions and services 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 an offering that achieves market acceptance and grows our business. In the three months ended March 31, 2020 and 2019, our research and development expenses were 25% and 26% 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, or may not achieve the market acceptance necessary to generate sufficient revenue. If we are unable to successfully develop new solutions or services, enhance our existing solutions to meet customer requirements, or otherwise gain market acceptance, our business and operating results will be harmed.

Because our solutions are available over the Internet, we need to continuously modify and enhance them to keep pace with changes in Internet-related hardware, software, communications, and database technologies and standards. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments and changes in standards, our solutions may become less marketable, less competitive, or obsolete, and our operating results will be harmed.

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 impact of the market volatility and economic downturn caused by COVID-19 or any other worldwide pandemic on our business, including but not limited to a decreased demand for our solutions and services, negative impacts on our revenue results, an increasing unpredictability in expenses and cash flow, and a decreased ability by our customers to pay for our solutions and services;
- our ability to attract new customers, retain and increase sales to existing customers, and satisfy our customers' requirements;
- the impact of changes in customer retention for and revenue arising from customers who are small and midsized organizations as a significant portion of such customers are on monthly terms;
- 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;
- security breaches, technical difficulties, or service interruptions to 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;
- new products, features, or functionalities introduced by our competitors;
- 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;
- changes in the relative and absolute levels of professional services we provide;
- expenses such as litigation or other dispute-related settlement payments;
- changes in foreign currency exchange rates; 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.

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.

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 Support Suite, the Sell Suite and Duet, we generally require a separate subscription to enable the functionality of each of our solutions. Additionally, we may not yet offer pricing and packaging models that addresses the needs of potential customers and our current pricing model may be either too complex or too simple for organizations of different sizes. We do not know whether our current or potential customers or the market in general will accept our pricing model going forward and, if it fails to gain acceptance, our business and results of operations could be harmed.

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 license 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.

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 become more dependent on sales to larger organizations, we expect our sales cycles 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.

An increasing dependence on sales to larger organizations may increase the variability of our financial results. 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 billings and subscription management 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.

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 2,950 employees as of March 31, 2019 to approximately 3,830 employees as of March 31, 2020. 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, and Canada. We may continue to expand our international operations 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. Finally, 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 COVID-19 pandemic, and we may experience unpredictability in our expenses 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 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.

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

In each of the three months ended March 31, 2020 and 2019, we derived 48% 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 very limited portion of our sales has been driven by 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 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;
- 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;
- increased financial accounting and reporting burdens and complexities;
- requirements or preferences for domestic products;
- differing technical standards, existing or future regulatory and certification requirements and required features and functionality;
- compliance with foreign privacy and security laws and regulations and the risks and costs of non-compliance;
- burdens of complying with a variety of foreign laws, including laws related to content removal, data localization, and regulatory oversight;
- 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, 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;
- difficulties in repatriating or transferring funds from or converting currencies in certain countries;
- communication and integration problems related to entering new markets with different languages, cultures, and political systems;

- difficulties in adapting to global supply chain changes and delivery of equipment to employees in different jurisdictions;
- differing labor standards, including restrictions related to, and the increased cost of, terminating employees in some countries;
- the need for localized software and licensing programs;
- the need for localized language support;
- 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 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.

Our network and computer systems have been breached in the past, and in one case that we publicly disclosed, a malicious actor appears to have had unauthorized access to customer data. In light of this incident, and in the event that we are subject to any future breaches or we learn that the extent of this breach 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.

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 sophisticated 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 regarding their customers or employees. Unauthorized access to or security breaches of our solutions could result in the loss of data, loss of intellectual property or trade secrets, loss of business, severe reputational damage adversely affecting customer or investor confidence, regulatory investigations and orders, litigation, or indemnity obligations. Furthermore, 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, penalties for violation of applicable laws, regulations, or contractual obligations, and 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. Notifications related to a security breach regarding or pertaining to any of such service providers could 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, 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.

We have previously experienced significant breaches and identified significant vulnerabilities of our security measures and the security measures deployed by third-party vendors upon which we rely, and our solutions are at risk for future breaches as a result of third-party action, employee, vendor, or contractor error, malfeasance, or other factors. In the three months ended September 30, 2019, we discovered a security matter that may have affected the Zendesk Support and Chat product solutions and customer accounts of those solutions activated prior to November of 2016. On September 24, 2019, we determined that information belonging to a small percentage of customers was accessed prior to November of 2016. The information accessed appears to have included some personally identifiable information and other service data, including customer credentials. We may learn additional information in the future regarding this incident. In light of this incident, and in the event that we are subject to any future breaches or we learn that the extent of this prior incident 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 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.

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. The number and complexity of security incidents continue to increase over time, and may include phishing attacks, ransomware, dissemination of computer viruses, worms and other destructive or disruptive software, denial of service attacks, attacks by foreign state actors, and other malicious activity, which may be heretofore unknown. We may also experience security breaches that may remain undetected for an extended period.

Because data security is a critical competitive factor in our industry, we make numerous statements in our 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.

We do not have the history with our subscription or pricing models that we need to accurately predict optimal pricing necessary to attract new customers and retain existing customers.

We have limited experience with respect to determining the optimal prices for our solutions and, as a result, we have in the past and expect in the future that we will need to change our pricing model from time to time. 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. Additionally, as our product and platform solutions mature, we may increasingly have difficulty in presenting a simple and transparent pricing model our prospective customers understand. 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.

Additionally, we have a very limited history in respect of pricing our more recently released offerings and solutions, including our Support Suite and Sell Suite solutions, and our Sunshine Conversations platform solution. We may not fully understand the impact of pricing changes in the market, and if we fail to find an optimal price for our more recently released offering and solutions, our business and results of operations may be harmed.

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 or business practices requiring highly customizable application 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. Many organizations have invested substantial personnel and financial resources to integrate traditional on-premise business software applications into their businesses, and therefore may be reluctant or unwilling to migrate to SaaS applications. 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 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.

Our ongoing and planned expenditures on third-party managed hosting services are expensive and complex, have resulted, and will result, in a negative impact on our cash flows, and may negatively impact our financial results.

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. Additionally, due to the difficulty in predicting usage of third-party managed hosting services related to customers recently migrated from our self-managed colocation data centers, we may not be able to accurately forecast our expenditures on such third-party managed hosting services, which may increase the variability of our results of operations.

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.

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.

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 solution will integrate with existing solutions that we currently offer. This expectation will increase especially with the launches of Support Suite and Sell Suite, each of 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, our business could be harmed.

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. 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 highly 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 require 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.

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 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. 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, our business would be negatively affected. 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 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.

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 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.

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 or departure of executives, 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 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. 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.

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.

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 Support Suite and the Sell 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.

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. Further, 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 as we continue to target larger organizations, and in the case of our sales force automation software and features and functionality related to our platform offering, increasingly target decision makers that are not in the customer support organizations we have traditionally targeted. 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.

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 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 midsized 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.

Because our solutions can be used to collect and store personal information, domestic and international privacy and data security concerns could result in additional costs and liabilities to us or inhibit sales of our solutions.

Personal privacy and data security have become significant issues in the United States, Europe, and in many other jurisdictions where we offer our solutions. The regulatory framework for privacy and security issues worldwide is rapidly evolving and is 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. For example, California recently enacted the California Consumer Privacy Act, or CCPA, that, among other things, requires covered entities to provide new disclosures to California consumers, affords such consumers new abilities to opt-out of certain sales of personal information, and gives such consumers a private right of action to enforce data breaches resulting from the covered entity's violation of its duty to implement and maintain reasonable security measures. We cannot yet predict the full impact of the CCPA on our business or operations, or predict any future changes to the language of the CCPA, but it may require us to modify our data processing practices and

policies and to incur substantial costs and expenses in an effort to comply. 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 addition, other states in the United States have proposed laws regarding privacy and data protection that contain obligations similar to the CCPA, and the federal government is contemplating privacy legislation.

We also face privacy and data security compliance obligations outside of the United States. On May 25, 2018, the European General Data Protection Regulation, or the GDPR, became effective, which imposes additional obligations and risks upon our business. Compliance with GDPR has and will continue to require valuable management and employee time and resources, and failure to comply with GDPR could trigger severe penalties, including steep fines of up to €20 million or 4% of global annual revenue, whichever is higher, and could reduce demand for our solutions. In many European jurisdictions enforcement actions and consequences for non-compliance are also rising.

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 will impose requirements similar to GDPR on products and services offered to users in Brazil. The GDPR and other laws or regulations associated with the enhanced protection of certain types of personal data, 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 jurisdictions in which we operate. Failure to comply with data protection regulations may result in data protection authorities and other privacy regimes imposing additional obligations to obtain consent from data subjects by or on behalf of our customers. Additionally, the inability to guarantee compliance or otherwise provide acceptable privacy assurances may inhibit the sale and use of our software in the European Union and certain other markets, which could, were it to occur, harm our business and operating results.

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 may require us to comply with more stringent privacy and data security contractual requirements. 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, such as Russia, imposing data localization laws, which under Russian laws require personal information of Russian citizens to be, among other data processing operations, initially collected, stored, and modified in Russia. 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 (including the GDPR), 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.

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. Additionally, our global operations further expose us to risks associated with public health crises, such as pandemics and epidemics, which could harm our business. The recent COVID-19 outbreak has created

significant additional uncertainty in the global economy. If the COVID-19 crisis worsens, particularly in the regions in which we have material operations or sales, our business activities originating from affected areas, including sales-related activities, could be adversely affected. 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.

We are subject to governmental 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 are subject to U.S. export controls, and we incorporate encryption technology into our solutions that is enabled through mobile applications and other software we may be deemed to export. 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, including the filing of an encryption registration. 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 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 which are subject to U.S. embargoes.

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 subject of U.S. embargoes. 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 ongoing matters we have not received indication and we do not believe monetary penalties or other sanctions will be imposed; however, 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. Each instance in which we provide services through our solutions or in which unlicensed encryption functionality software is downloaded may constitute a separate violation of these laws.

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 exports control 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 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.

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 typically have customers who add flexible agents when they need more capacity during busy periods, especially in the fourth quarter, and then subsequently scale back in the first quarter of 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. Additionally, 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. 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.

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 network, hardware, and software platforms, and we need to continuously modify and enhance our product and platform solutions to adapt to changes in cloud-enabled hardware, software, networking, browser, and database technologies. In particular, we have developed our solutions to be able to easily integrate with third-party SaaS applications, 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 one or more of our competitors; 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 SaaS applications through our respective APIs. If we are not permitted or able to integrate with these and other third-party SaaS applications in the future, demand for our solutions could be adversely impacted and business and operating results would be harmed. In addition, an increasing number of individuals within organizations are utilizing mobile devices to access the Internet and corporate resources and to conduct business. 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.

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 are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. We have received, and may in the future receive, claims from third parties, including our competitors, that our solutions and underlying technology infringe or violate a third party's intellectual property rights, and we may be found to be infringing upon 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.

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 six 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 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. We do not know when or if our operations will generate sufficient cash to fund our ongoing operations. 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.

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.

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 transfer pricing regulations administered by taxing authorities in various jurisdictions. Our tax returns are generally subject to examination by taxing authorities and the relevant taxing authorities may disagree with our determinations as to the value of assets sold or acquired or income and expenses attributable to specific jurisdictions or transactions. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest, and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows, and lower overall profitability of our operations.

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 recently enacted significant tax reform, and certain provisions of the new law may potentially adversely affect us in the future. For example, under the Tax Cuts and Jobs Act's "base erosion and anti-abuse tax" provision, and the regulations issued thereunder, which we may be subject to in the future, could adversely impact our effective tax rate by limiting our ability to deduct certain expenses. 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 March 31, 2020, we had a net balance of $204 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, 2019, we had federal and state net operating loss carryforwards, or NOLs, of $948 million and $412 million, respectively, due to prior period losses. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" 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. In addition, under the Tax Cuts and Jobs Act, or the Tax 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.

Generally accepted accounting principles, or GAAP, in the United States are subject to interpretation by the Financial Accounting Standards Board, or 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 Accounting Standards Codification 606, "*Revenue from Contracts with Customers,*" which changed our accounting policies regarding revenue recognition and incremental costs to acquire 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 consolidated financial information 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.

Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. Our estimates and forecasts relating to the size and expected growth of the customer relationship management market may prove to be inaccurate. Even if the market in which we compete meets our size estimates and forecasted growth, our business could fail to grow at similar rates, if at all.

It has been and, until the COVID-19 pandemic is contained, will continue to be more difficult for us to forecast our growth and the expected growth of the customer relationship management market.

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 services. 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.

Exposure to United Kingdom political developments, including the United Kingdom's decision to leave the European Union, could have a material adverse effect on us.

On June 23, 2016, a referendum was held on the United Kingdom's membership in the European Union, the outcome of which was a vote in favor of leaving the European Union. On January 31, 2020, the United Kingdom formally withdrew its membership from the European Union, beginning an 11-month transition period during which the United Kingdom will continue to obey the laws of the European Union.

Pending the resolution of negotiations between the United Kingdom and the European Union during the transition period, there is uncertainty regarding the United Kingdom's ongoing access to the European Union's single market and the impact on the trading, legal, regulatory, and labor environments in the European Union and the United Kingdom. The referendum and resulting withdrawal from the European Union creates an uncertain political and economic environment in the United Kingdom and potentially across other European Union member states which may last for a number of months or years.

The risk of instability for both the United Kingdom and the European Union, could adversely affect our results, financial condition, and prospects, and has caused and may continue to cause significant volatility in global financial markets and the value of the British Pound Sterling currency or other currencies, including the Euro.

The European General Data Protection Regulation will continue to apply in the United Kingdom until the expiration of the transition period on December 31, 2020, but it is unclear how the United Kingdom's withdrawal from the European Union will affect the United Kingdom's enactment of such European Union regulation thereafter, and how data transfers to and from the United Kingdom will be regulated. In addition, the United Kingdom's withdrawal from the European Union could lead to legal uncertainty and potentially divergent national laws and regulations as the United Kingdom determines which European Union laws to replace or replicate.

Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our product and platform solutions, cause us to incur additional expenses, or otherwise have a negative impact on our business.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication, and business applications. Federal, state, or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. Changes in these laws or regulations could require us to modify our solutions in order to comply with these changes or substantially increase costs associated with the operation of our solutions. Additionally, the adoption of any laws, regulations, or practices limiting Internet neutrality could allow Internet service providers to block, degrade, or interfere with our solutions or services. These laws, regulations, or practices could decrease the demand for, or the usage of, our solutions and services, increase our cost of doing business, and adversely affect our operating results. In addition, government agencies or private organizations have imposed and may impose additional taxes, fees, or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, or result in reductions in the demand for Internet-based platforms and services such as ours. In addition, the use of the Internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease-of-use, accessibility, and quality of service. The performance of the Internet and its acceptance as a business tool has been adversely affected by “viruses,” “malware,” and similar malicious programs, and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure.

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

Our corporate headquarters are located in San Francisco, California, an area that has been significantly affected by the COVID-19 pandemic, 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 (such as the outbreak of COVID-19), 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. For example, the COVID-19 pandemic has caused us to adopt precautionary measures, such as work from home, that could negatively affect our business and results of operations.

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 outbreak, 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, it could subject us to substantial costs, 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 March 31, 2020, our directors, officers, five percent or greater stockholders, and their respective affiliates beneficially owned in the aggregate approximately 30% 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.

Substantial future sales of shares of our common stock could cause the market price of our common stock to decline.

The market price of our common stock could decline as a result of substantial sales of our common stock, particularly sales by our directors, executive officers, and significant stockholders, or the perception in the market that holders of a large number of shares intend to sell their shares.

Additionally, the shares of common stock subject to outstanding options and restricted stock unit awards under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations.

Certain holders of our common stock have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or 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, 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. 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 requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain executive management and qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the listing requirements of the exchanges and other markets upon which our common stock is listed, and other applicable securities rules and regulations. Compliance with these rules and regulations increase our legal and financial compliance costs, make some activities more difficult, time-consuming, or costly, and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. We are required to disclose changes made in our internal control and procedures on a quarterly basis and to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. Although we have already hired additional employees to assist us in complying with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our operating expenses.

In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time consuming. 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 invest substantial 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.

Being a public company and these new rules and regulations have made it more expensive for us to obtain director and officer liability insurance, and in the future we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in our filings with the SEC, our business and financial condition have become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result

in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

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 the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or other employees.

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 shall be the sole and exclusive forum 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 General Corporation Law of the State of Delaware, our certificate of incorporation, or our bylaws, or (D) any action asserting a claim against us governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to the provisions of our certificate of incorporation described above. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits against us and our directors, officers, and other employees. Alternatively, if a court were to find these provisions of our certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition, or results of operations.

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 0.25% convertible senior notes due 2023, or Notes, in a private offering. The interest rate is fixed at 0.25% per annum and is payable semi-annually in arrears on March 15 and September 15 of each year. 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 Securities and Exchange Act of 1934, 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 to our condensed consolidated financial statements, the conditional conversion feature of the Notes was triggered as of June 30, 2019, and the Notes were convertible at the option of the holders, in whole or in part, between July 1, 2019 and September 30, 2019. The conditional conversion feature of the Notes was not triggered as of March 31, 2020, and the notes are not convertible between April 1, 2020 and June 30, 2020. 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, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital. We have classified the Notes as a long-term liability on the condensed consolidated balance sheet as of March 31, 2020. As of the date of this filing, we have received one request for conversion for an immaterial amount of Notes.

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, or 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 that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

Under Financial Accounting Standards Board Accounting Standards Codification 470-20, *Debt with Conversion and Other Options*, or ASC 470-20, an entity must 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. ASC 470-20 requires 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 reduces their initial carrying value. The carrying value of the Notes, net of the discount recorded, will be accreted up to the principal amount of the Notes from the issuance date until maturity, which will result in non-cash charges to interest expense in our consolidated statement of operations. Accordingly, we will report lower net income or higher net loss in our financial results because ASC 470-20 requires interest to include both the current period's accretion of the debt discount and the instrument's coupon interest, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds 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. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. If we are unable to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected in periods when we report net income.

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
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	001-36456	3.1	August 7, 2014
3.2	Amended and Restated By-laws of the Registrant.	8-K/A	001-36456	3.1	February 7, 2018
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith			
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.	Filed herewith			
32.1*	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.	Furnished herewith			
101.INS	Inline XBRL Instance Document	Filed herewith			
101.SCH	Inline XBRL Taxonomy Extension Schema Document	Filed herewith			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	Filed herewith			
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith			
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)	Filed herewith			

* 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.

Zendesk, Inc.

Date: May 1, 2020

By: /s/ Elena Gomez

Elena Gomez

Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 31.1

**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: May 1, 2020

By: /s/ Mikkel Svane

Mikkel Svane
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

**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, Elena Gomez, 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: May 1, 2020

By: /s/ Elena Gomez

Elena Gomez
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

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 March 31, 2020 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)

May 1, 2020

I, Elena Gomez, 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 March 31, 2020 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/ Elena Gomez

Elena Gomez
Chief Financial Officer
(Principal Financial Officer)

May 1, 2020

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.