

Zendesk, Inc.  
Form 424B4  
March 19, 2015  
**Table of Contents**

**Filed Pursuant to Rule 424(b)(4)  
Registration No. 333-202621**

8,530,000 Shares

**Zendesk, Inc.**

Common Stock

Zendesk, Inc. is selling 7,500,000 shares of common stock and the selling stockholders identified in this prospectus are selling 1,030,000 shares of common stock in this offering. We will not receive any proceeds from the sale of shares to be offered by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol ZEN. On March 18, 2015, the last reported sale price of our common stock on the New York Stock Exchange was \$23.30 per share.

We are an emerging growth company as defined under the federal securities laws and, as such, we are subject to reduced public company reporting requirements.

See *Risk Factors* beginning on page 10 to read about factors you should consider before buying shares of common stock.

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

	Per Share	Total
Public offering price	\$ 22.75	\$ 194,057,500
Underwriting discount <sup>(1)</sup>	\$ 0.989625	\$ 8,441,501
Proceeds, before expenses, to us	\$ 21.760375	\$ 163,202,813
Proceeds, before expenses, to selling stockholders	\$ 21.760375	\$ 22,413,186

(1) See Underwriting for a description of the compensation payable to the underwriters. The underwriters have the option to purchase up to an additional 1,279,500 shares from us at the public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on March 24, 2015.

**Goldman, Sachs & Co.**

**BofA Merrill Lynch**

**Pacific Crest Securities**

**Canaccord Genuity**

**Morgan Stanley**

**Credit Suisse**

**JMP Securities**

Prospectus dated March 18, 2015.

**Table of Contents**

**Table of Contents**

Table of Contents

## TABLE OF CONTENTS

	Page
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	10
<u>Special Note Regarding Forward-Looking Statements</u>	41
<u>Industry and Market Data</u>	43
<u>Use of Proceeds</u>	44
<u>Market Price of Common Stock</u>	45
<u>Dividend Policy</u>	46
<u>Capitalization</u>	47
<u>Dilution</u>	49
<u>Selected Consolidated Financial Data</u>	51
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	53
<u>Business</u>	75
<u>Management</u>	96
<u>Executive Compensation</u>	105
<u>Certain Relationships and Related Party Transactions</u>	115
<u>Principal and Selling Stockholders</u>	119
<u>Description of Capital Stock</u>	123
<u>Shares Eligible for Future Sale</u>	128
<u>Material U.S. Federal Income Tax Consequences to Non-U.S. Holders of Our Common Stock</u>	130
<u>Underwriting</u>	133
<u>Legal Matters</u>	139
<u>Experts</u>	139
<u>Additional Information</u>	139
<u>Index to Consolidated Financial Statements</u>	F-1

Neither we, the selling stockholders, nor any of the underwriters have authorized anyone to provide any information or to make any representations other than as contained in this prospectus or in any free writing prospectuses we have prepared. We, the selling stockholders, and the underwriters take no responsibility for, and provide no assurance as to the reliability of, any information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

**Table of Contents**

**PROSPECTUS SUMMARY**

*This summary highlights selected information that is presented in greater detail elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, including the sections titled Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and the related notes included elsewhere in this prospectus, before making an investment decision. Unless expressly indicated or the context requires otherwise, the terms Zendesk, company, we, us, and our in this prospectus refer to Zendesk, Inc., a Delaware corporation, and its consolidated subsidiaries.*

**Overview**

Zendesk believes the fundamental relationship between organizations and their customers is changing, and a new customer service philosophy is emerging.

Zendesk was formed to help organizations capitalize on this profound shift. We are a software development company that provides a software-as-a-service, or SaaS, customer service platform. Our beautifully simple platform helps organizations engage with people in new ways that foster long-term customer loyalty and satisfaction. We empower organizations to better answer customers' questions, and to solve their problems through the channels that people use every day when seeking help, such as email, chat, voice, social media, and websites. Our platform also helps people find answers on their own through knowledge bases and communities, capitalizing on the increasing customer preference for self-service. Our customer engagement capabilities allow organizations to proactively serve their customers, reaching out to those who may need help and soliciting feedback about their experience. The openness of our customer service platform makes it easy for organizations to integrate with other applications and embed our platform's functionality natively into their own websites and mobile applications. Our platform consolidates the data from customer interactions and provides organizations with powerful analytics and performance benchmarking.

Our business model is designed to drive organic growth, leverage positive word-of-mouth, and remove friction from the evaluation and purchasing process. A substantial percentage of our customers find us online and subscribe to our customer service platform directly from our website. Exemplifying the success of our sales and marketing strategy, during the three months ended December 31, 2014, approximately 64% of our qualified sales leads generated online, and approximately 62% of the total qualified sales leads for our customer service platform, came from organic search, customer referrals, and other unpaid sources. Our largest source of qualified sales leads is free trials of our customer service platform commenced by prospects. Our sales team largely focuses on a land and expand strategy, which leverages this grassroots adoption and seeks to expand our footprint within organizations.

As of December 31, 2014, we had approximately 52,500 paid customer accounts on our customer service platform and live chat software in the aggregate, which represent organizations across a broad array of sizes, industries, and geographies. Our customers are located in 150 countries and territories and provide customer service through our platform in over 40 languages.

In March 2014, we completed the acquisition of Zopim Technologies Pte Ltd., or Zopim, a software development company that provides a SaaS live chat service. Through Zopim, we provide live chat software as a standalone service and as an integrated service with our customer service platform for chat-enabled agents.



## **Table of Contents**

Our financial performance reflects our significant customer growth and strong customer retention and expansion. For the years ended December 31, 2012, 2013, and 2014, our revenue was \$38.2 million, \$72.0 million, and \$127.0 million, respectively, representing an 88% annual growth rate from 2012 to 2013 and a 76% annual growth rate from 2013 to 2014. For the years ended December 31, 2012, 2013, and 2014, we derived \$15.8 million, or 41%, \$29.6 million, or 41%, and \$54.8 million, or 43%, respectively, of our revenue from customers located outside of the United States. For the years ended December 31, 2012, 2013, and 2014, we generated net losses of \$24.4 million, \$22.6 million, and \$67.4 million, respectively. We intend to continue to invest aggressively to drive continued growth and market leadership.

## **Industry Background**

Over the last several years, the ways in which people research, purchase from, and communicate with organizations have evolved from a relatively simple set of interactions into a rapidly expanding network of information and communications. The result is people who are better informed about the products and services they buy; have more choices and potentially less loyalty; and can influence many others with their opinions. People have higher expectations about how an organization will relate to them and less patience for organizations that do not meet these expectations.

We believe this transformation creates tremendous opportunities for organizations of all sizes that make customer service a critical focus of their operations. We believe that many successful organizations today exemplify this new approach and have discovered that a deep understanding of the customer experience can be the foundation for building highly valuable customer relationships. While opportunities abound for organizations that recognize and capitalize on these trends, the penalties for failing to evolve to this changing landscape can be severe. Acting as brand advocates or adversaries, individuals can influence peers' opinions and purchasing behavior.

Various software tools, delivered both on-premise and in the cloud, have attempted to address the difficult nature of customer support for many years. This legacy customer support software is costly and complex, causing the vast majority of small and medium-sized businesses, or SMBs, to rely primarily on tools like email, phones, and spreadsheets. Even larger organizations able to afford customer support software often adopt a piecemeal approach with the goal of minimizing support costs. The result is the inability to support multiple channels or expand to new channels, ultimately leading to customer frustration.

Legacy customer support software also limits employees' effectiveness in responding to customer inquiries and offers few, if any, analytics, recommendations, or performance benchmarks. Familiar with consumer web software like Facebook, Twitter, and Gmail, employees desire tools with similar ease-of-use and sophistication. Most enterprise software, particularly customer support software, has not progressed to embrace consumer design tactics including optimized user experience, availability on personal devices, and ease-of-deployment.

We believe that effective customer service requires a purpose-built platform that embraces the new landscape of omni-channel communication and the empowered and informed customer, and places an emphasis on well-designed experiences.

According to International Data Corporation, or IDC, a global market intelligence firm, in 2013 the worldwide customer relationship management, or CRM, software market comprised \$22.8 billion. Our customer service platform primarily addresses the customer service and contact center segments which comprised a total of \$10.5 billion in 2013 worldwide. In addition, IDC has estimated that between 2012 and 2017 SaaS solutions in the overall CRM applications market will grow over ten times faster.





## Table of Contents

than legacy on-premise solutions. In a 2013 report, IDC also estimated that there were approximately 76 million SMBs worldwide. We believe that many of these organizations have not been able to implement or afford legacy customer support software and therefore represent a substantial greenfield market opportunity for our customer service platform.

### **The Zendesk Approach**

Zendesk's mission is to help organizations and their customers build better relationships. Our intuitive customer service platform facilitates listening to the customer, finding the best possible answer, communicating through the appropriate channel, and sharing the knowledge gained with the whole organization.

**Beautifully Simple.** We have an overarching philosophy to be beautifully simple. We take intuitive design elements that people have grown to expect from consumer software and incorporate them into our platform. We also offer a free trial and a transparent purchase process with numerous self-service options that are suitable for SMBs and enterprise departments as well as assisted options for larger clients.

**Omni-Channel and Contextual.** Our customer service platform is built to support customers across a wide variety of integrated channels – email, voice, social media, and websites. We offer live chat as a standalone service and as an integrated service with our customer service platform for chat-enabled agents. In addition, our customer service platform provides important contextual information around customer issues by encouraging employee collaboration and enabling real-time information sharing.

**Affordable.** We believe our subscription plans are significantly less expensive and offer greater pricing transparency than many legacy customer support software applications (especially when software updates, ongoing maintenance, and consultant fees required for integration, installation, customization, and training are taken into account).

**Natively Mobile.** Through native mobile apps, employees can access our platform anywhere with robust product functionality, an elegant interface, and performance analytics.

**Cloud-Based Architecture.** Our architecture automates frequent software updates and introduction of new features while also allowing our platform to easily scale within organizations. Configurations made with simple tools tailor the functionality and design of our platform to an organization's particular needs and keep customer service efforts of any size organized.

**Open Platform.** Our platform includes over 270 pre-built integrations with CRM, e-commerce, telephony, live chat, and other apps, which are enabled through our app marketplace. Developed with our open application programming interfaces, or APIs, our platform can also be customized, integrated, or expanded upon with private apps. Through Zendesk Embeddables, we enable customers to simply and natively integrate critical functionality directly into their own websites and applications, including optimized integrations for mobile applications.

**Proactive Engagement.** Organizations are equipped to proactively communicate with customers at the most relevant and critical moments. For example, organizations can automatically trigger workflow to proactively reach out to customers that may signal they have had a bad experience or need particular attention.

**Strategic Analytics.** Our customer service platform provides analytics that are mission critical for an organization's operations. In all subscription plans for our customer service platform, managers have access to real-time operational efficiency and customer satisfaction analytics at the interaction, agent, and organizational level.

**Table of Contents**

**Growth Strategy**

We are focused on the following key areas of growth:

Introducing new products and broadening our platform functionality;

Furthering our data-driven approach;

Maintaining our leadership in the SMB market;

Expanding our enterprise customer base;

Continuing to increase our global customer footprint;

Broadening our integrations and partnerships; and

Developing our brand.

**Risk Factors Summary**

Our business is subject to numerous risks and uncertainties, including those highlighted in the section titled **Risk Factors** immediately following this prospectus summary. These risks include, but are not limited to, the following:

We may fail to adapt our customer service platform, from which we derive substantially all of our revenue and cash flows, to changing market dynamics and customer preferences or achieve increased market acceptance of our platform;

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 or sustain profitability;

We have a limited operating history, which makes it difficult to evaluate our prospects and future operating results;

We may not be able to develop enhancements to our customer service platform and live chat software that achieve market acceptance or that keep pace with technological developments;

We may fail to effectively manage our growth and organizational change in a manner that preserves the key aspects of our culture;

The market in which we participate is intensely competitive, and we may not compete effectively;

The market for SaaS business software applications may develop more slowly than we expect or decline;

If we are not successful in selling live chat software as a standalone service or more fully integrating our live chat software with our customer service platform, our business could be harmed;

Our network or computer systems may be breached or unauthorized access to customer data may otherwise be obtained, causing our platform to be perceived as insecure;

We may experience service interruptions or performance problems associated with our technology and infrastructure;

Real or perceived errors, failures, or bugs in our customer service platform or live chat software may occur;

## **Table of Contents**

We depend substantially on our customers renewing their subscriptions and purchasing additional subscriptions from us and we may suffer declines in our customer retention or expansion;

We may fail to effectively expand our sales capabilities; and

Our stock price may be volatile or may decline regardless of our operating performance.

### **General Corporate Information**

We were founded in Copenhagen, Denmark in 2007. We reincorporated in Delaware in 2009. Our principal executive offices are located at 1019 Market Street, San Francisco, California 94103, and our telephone number is (415) 418-7506. Our website address is [www.zendesk.com](http://www.zendesk.com). Information contained on or that can be accessed through our website does not constitute part of this prospectus and inclusions of our website address in this prospectus are inactive textual references only.

Zendesk, Zopim, the Lotus flower image, and other trademarks or service marks of Zendesk appearing in this prospectus are the property of Zendesk or its consolidated subsidiaries. This prospectus contains additional trade names, trademarks, and service marks of other companies. We do not intend our use or display of other companies trade names, trademarks or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies.

### **Implications of Being an Emerging Growth Company**

As a company with less than \$1.0 billion in revenue during our last fiscal year, we qualify as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements that are otherwise applicable generally to public companies. These provisions include:

an exemption from compliance with the auditor attestation requirement on the effectiveness of our internal control over financial reporting;

an exemption from compliance with any requirement that the Public Company Accounting Oversight Board may adopt regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements;

reduced disclosure about our executive compensation arrangements; and

exemptions from the requirements to obtain a non-binding advisory vote on executive compensation or a stockholder approval of any golden parachute arrangements.

We will remain an emerging growth company until the earliest to occur of: the last day of the fiscal year in which we have more than \$1.0 billion in annual revenue; the end of the fiscal year in which the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the end of the second quarter of that fiscal year; the

issuance, in any three-year period, by us of more than \$1.0 billion in non-convertible debt securities; and the last day of the fiscal year ending after the fifth anniversary of our initial public offering, or IPO. We may choose to take advantage of some, but not all, of the available benefits under the JOBS Act. We have chosen to irrevocably opt out of the extended transition periods available under the JOBS Act for complying with new or revised accounting standards, but we intend to take advantage of certain of the other exemptions discussed above. Accordingly, the information contained herein may be different than the information you receive from other public companies in which you hold stock.

Table of Contents

**THE OFFERING**

Common stock offered by us	7,500,000 shares
Common stock offered by the selling stockholders	1,030,000 shares
Common stock to be outstanding after this offering	83,097,076 shares
Option to purchase additional shares from us	We have granted the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to an additional 1,279,500 shares from us.
Use of proceeds	<p>The principal purposes of this offering are to raise additional capital and facilitate an orderly distribution of shares for the selling stockholders. We estimate that the net proceeds from the sale of shares of our common stock that we are selling in this offering will be approximately \$162.3 million (or approximately \$190.1 million if the underwriters' option to purchase additional shares in this offering is exercised in full), based on the public offering price of \$22.75 per share, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares by the selling stockholders.</p> <p>We intend to use the net proceeds that we receive from this offering for working capital or other general corporate purposes, including the further expansion and development of our customer service platform and live chat software, the development of new products and services, continued expansion of our sales and marketing capabilities, and international expansion. We may also use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies. However, we have not entered into any</p>



agreements or commitments for any specific acquisitions at this time.

See the section titled "Use of Proceeds" for additional information.

Concentration of ownership

Upon the completion of this offering, our executive officers and directors and stockholders holding more than 5% of our capital stock, and their affiliates, will beneficially own, in the aggregate, approximately 47.6% of our outstanding shares of common stock.

NYSE trading symbol

ZEN

**Table of Contents**

The number of shares of common stock that will be outstanding after this offering is based on 75,577,076 shares outstanding as of December 31, 2014 and 20,000 shares to be issued upon exercise of an option to purchase common stock by a certain selling stockholder and sold in this offering, and excludes:

12,044,546 shares of our common stock issuable upon the exercise of options to purchase common stock that were outstanding as of December 31, 2014 with a weighted-average exercise price of \$7.39 per share (other than 20,000 shares to be issued upon exercise of an option to purchase common stock by a certain selling stockholder and sold in this offering);

3,063,455 shares of our common stock subject to restricted stock units outstanding as of December 31, 2014;

1,318,800 shares of our common stock issuable upon the exercise of options to purchase common stock granted after December 31, 2014 through February 28, 2015, with a weighted-average exercise price of \$24.75 per share;

1,852,932 shares of our common stock subject to restricted stock units granted after December 31, 2014 through February 28, 2015;

7,559,573 shares of our common stock reserved for future issuance under our 2014 Stock Option and Incentive Plan as of December 31, 2014;

3,197,419 shares of our common stock reserved for future issuance under our 2014 Employee Stock Purchase Plan as of December 31, 2014; and

any shares of our common stock that become available subsequent to this offering under our 2014 Stock Option and Incentive Plan and 2014 Employee Stock Purchase Plan pursuant to provisions thereof that automatically increase the share reserves under such plans each year, as more fully described in Executive Compensation Employee Benefit and Stock Plans.

Except as otherwise indicated, all information in this prospectus assumes no exercise by the underwriters of their option to purchase up to an additional 1,279,500 shares of common stock from us in this offering.

**Table of Contents****SUMMARY CONSOLIDATED FINANCIAL DATA**

The following consolidated statements of operations for the years ended December 31, 2012, 2013, and 2014 and the summary consolidated balance sheet data as of December 31, 2014 are derived from the audited consolidated financial statements that are included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future. You should read the following summary consolidated financial data below in conjunction with the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(In thousands, except per share data)</b>		
<b>Consolidated Statements of Operations:</b>			
Revenue	\$ 38,228	\$ 72,045	\$ 127,049
Cost of revenue <sup>(1)</sup>	13,253	24,531	46,047
Gross profit	24,975	47,514	81,002
Operating expenses <sup>(1)</sup>			
Research and development	14,816	15,288	36,403
Sales and marketing	22,749	37,622	77,875
General and administrative	11,558	16,437	32,869
Total operating expenses	49,123	69,347	147,147
Operating loss	(24,148)	(21,833)	(66,145)
Other expense, net	(96)	(517)	(1,533)
Loss before provision for (benefit from) income taxes	(24,244)	(22,350)	(67,678)
Provision for (benefit from) income taxes	121	221	(263)
Net loss	(24,365)	(22,571)	(67,415)
Accretion of redeemable convertible preferred stock	(50)	(49)	(18)
Deemed dividend to investors in relation to the tender offer	(8,326)		
Net loss attributable to common stockholders	\$ (32,741)	\$ (22,620)	\$ (67,433)
Net loss per share attributable to common stockholders, basic and diluted <sup>(2)</sup>	\$ (1.67)	\$ (1.04)	\$ (1.26)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted <sup>(2)</sup>	19,629	21,674	53,571

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

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(In thousands)</b>		
Cost of revenue	\$ 129	\$ 254	\$ 2,464
Research and development	4,117	635	10,918
Sales and marketing	1,313	1,210	10,680
General and administrative	4,081	2,755	8,077

- (2) See Note 10 of the Notes to our Consolidated Financial Statements included elsewhere in this prospectus for an explanation of the method used to calculate basic and diluted net loss per share attributable to common stockholders and the weighted-average number of shares used in the computation of the per share amounts.

**Table of Contents**

	<b>As of December 31, 2014</b>	
	<b>Actual</b>	<b>As Adjusted<sup>(1)</sup></b>
	<b>(In thousands)</b>	
	<b>(Unaudited)</b>	
<b>Consolidated Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 80,265	\$ 242,543
Marketable securities	42,204	42,204
Working capital	60,856	223,134
Property and equipment, net	41,895	41,895
Goodwill and intangible assets, net	14,152	14,152
Total assets	205,788	368,066
Deferred revenue	51,731	51,731
Credit facility	6,952	6,952
Total liabilities	92,082	92,082
Stockholders' equity	113,706	275,984

- (1) The as adjusted balance sheet data in the table above reflects (A) the sale of 7,500,000 shares of our common stock in this offering by us at the public offering price of \$22.75 per share, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us, and (B) the issuance of 20,000 shares of common stock to be acquired by a certain selling stockholder upon the exercise of options in order to sell those shares in the offering.

---

**Table of Contents**

**RISK FACTORS**

*Investing in our common stock involves a high degree of risk. Before you invest in our common stock, you should carefully consider the following risks, together with all of the other information contained in this prospectus, including our financial statements and related notes, before making a decision to invest in our common stock. Any of the following risks could have a material adverse effect on our business, operating results, and financial condition and could cause the trading price of our common stock to decline, which would cause you to lose all or part of your investment.*

**Risks Related to Our Business**

***We derive, and expect to continue to derive, substantially all of our revenue and cash flows from our customer service platform. If we fail to adapt this platform to changing market dynamics and customer preferences or to achieve increased market acceptance of our customer service platform, 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 our customer service platform. As such, the market acceptance of this platform is critical to our success. Demand for our customer service platform is affected by a number of factors, many of which are beyond our control, such as continued market acceptance of our platform by customers for existing and new use cases, the timing of development and release of new products, features, and functionality introduced by our competitors, technological change, and growth or contraction in our addressable market. We expect that an increasing focus on customer satisfaction and the growth of various communications channels will profoundly impact the market for customer support software and blur distinctions between traditionally separate systems for customer support, marketing automation, and customer relationship management, enabling new competitors to emerge. If we are unable to meet customer demands to manage customer experiences through flexible solutions designed to address all these needs or otherwise achieve more widespread market acceptance of our customer service platform, our business, results of operations, financial condition, and growth prospects will be adversely affected.

***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 \$24.4 million, \$22.6 million, and \$67.4 million for the fiscal years ended December 31, 2012, 2013, and 2014, respectively. We incurred net losses of \$6.1 million and \$17.5 million in the three months ended December 31, 2013 and 2014, respectively. We had an accumulated deficit of \$131.9 million at December 31, 2014. For the three months ended December 31, 2013 and 2014, our revenue was \$22.5 million and \$38.5 million, respectively, representing a 71% growth rate. For the fiscal years ended December 31, 2012, 2013, and 2014, our revenue was \$38.2 million, \$72.0 million, and \$127.0 million, respectively, representing a 76% growth rate. 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 customer service platform, including investments in our research and development team, the development or acquisition of new products, features and functionality, and improvements to the scalability, availability, and security of our customer service platform;

our technology infrastructure, including expansion of our activities in our self-managed colocation data centers, enhancements to our network operations and infrastructure, and hiring of additional employees for our operations team;

**Table of Contents**

sales and marketing, including a significant expansion of our direct sales organization;

additional international expansion in an effort to increase our customer base and sales; and

general administration, including legal, accounting, and other expenses related to our obligations as 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.

***We have a limited operating history, which makes it difficult to evaluate our prospects and future operating results.***

We incorporated and first launched our customer service platform in 2007. As a result of our limited operating history, our ability to forecast our future operating results is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. Our historical revenue growth has been inconsistent, and should not be considered indicative of our future performance. Further, in future periods, our revenue could decline for a number of reasons, including any reduction in demand for our customer service platform or live chat software, increased competition, contraction of our overall market, or our failure, for any reason, to capitalize on growth opportunities. We have encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties, which we use to plan our business, are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, and our business could suffer.

***If we are not able to develop enhancements to our customer service platform or live chat software 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 customer service platform and live chat software and to introduce new products and services. In order to grow our business, we must develop products and services that reflect the changing nature of customer service, and expand beyond customer service to other areas of managing relationships with customers. The success of any enhancement to our customer service platform or live chat software depends on several factors, including timely completion, adequate quality testing, and market acceptance. Any new product 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 products or services, enhance our existing customer service platform and live chat software to meet customer requirements or otherwise gain market acceptance, our business and operating results will be harmed.

Because our customer service platform and live chat software 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 customer service platform and live chat software may become less marketable, less competitive, or obsolete, and our operating results will be harmed.

***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,

---

**Table of Contents**

and financial resources. For example, our headcount has grown from 473 employees on December 31, 2013 to 806 employees on December 31, 2014. In addition, we have established subsidiaries in Denmark, the United Kingdom, Australia, Ireland, Japan, the Philippines, and Brazil since our inception in 2007, and, as a result of the acquisition of Zopim, we also have a subsidiary in Singapore. 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 customer service platform and our associated hosting infrastructure 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. 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 satisfaction 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 products and services may suffer, which could negatively affect our brand and reputation and harm our ability to retain and attract customers.

***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 service solutions is fragmented, rapidly evolving, and highly competitive, with relatively low barriers to entry. Among the small to medium sized organizations that make up a large proportion of our customers, we often compete with general use computer applications and other tools, which these organizations use to provide support and which can be deployed for little or no cost. These include shared accounts for email communication, phone banks for voice communication, and pen and paper, text editors, and spreadsheets for tracking and management. With respect to larger organizations and enterprises seeking to deploy a customer service software system, we have many competitors that are larger and which have greater name recognition, much longer operating histories, more established customer relationships, larger marketing budgets, and significantly greater resources than we do.

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 platform, and new market entrants, we expect competition to intensify in the future. Pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses, or the failure of our platform to achieve or maintain more widespread market acceptance, any of which could harm our business.

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. We face substantial competition from salesforce.com, Inc., Oracle Corporation, Verint Systems, Inc., and Microsoft Corporation, each of which can bundle competing products and services with other software offerings, or offer them at a low price as part of a larger sale. In addition, we compete with a number of other SaaS providers with focused customer support applications, including desk.com (a salesforce.com service), Kayako Helpdesk Pvt. Ltd., Freshdesk, Inc., Brightwurks, Inc. (Help Scout), SupportBee, Inc., and Tenmiles Technologies Pvt. Ltd. (Happy Fox), many of which offer free or significantly discounted prices for their services. For organizations seeking software to support employee service and other internal use cases, we compete with companies such as ServiceNow, Inc., BMC Software, Inc., Atlassian Pty Ltd, and Hewlett-Packard Company. We also compete with a number of providers of live chat software, including LivePerson, Inc, BoldChat (a LogMeIn, Inc. service), Velaro, Inc., SnapEngage, LLC, Habla, Inc. (Olark), and LiveChat, Inc. Further, other established SaaS providers not currently focused on customer support or live chat software may expand their services to compete with us. Many of our



## **Table of Contents**

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. Additionally, some potential customers, particularly large organizations, have elected, and may in the future elect, to develop their own internal customer support software system. 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 to compete with them. For all of these reasons, we may not be able to compete successfully against our current and future competitors, which would harm our business.

***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. It is difficult to predict customer adoption rates and demand for our customer service platform and live chat software, the future growth rate and size of the SaaS business applications market or the entry of competitive 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. Additionally, government agencies have adopted, or may adopt, laws and regulations regarding the collection, use, and transfer of personal information obtained from consumers and other individuals, or may seek to access information on our platform, either of which may reduce the overall demand for our platform. 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 customer service platform and live chat software, may be negatively affected. If SaaS business applications do not continue to achieve market acceptance, or there is a reduction in demand for SaaS business applications caused by a lack of customer acceptance, 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.

***If we are not successful in selling our live chat software as a standalone service or more fully integrating our live chat software with our customer service platform, our business could be harmed.***

As a result of the acquisition of Zopim, we now sell our live chat software as a standalone service. Our live chat software can also be integrated with our customer service platform as a means to enable live chat functionality for agents and this integration is now the primary means by which we offer chat functionality on our customer service platform.

We have limited experience selling separate products in general or live chat software in particular, and as a result, our live chat software may not gain acceptance with our customers and potential customers.

Our reliance on our live chat software as a primary means of enabling chat functionality in connection with our customer service platform may not be successful. In particular, we currently charge



## Table of Contents

a separate subscription fee per chat-enabled agent. While we believe our live chat software represents a substantial upgrade in functionality over the chat functionality historically embedded in our customer service platform, our current or prospective customers may resist paying for functionality that, to some degree, was previously available to all agents under a single subscription to our customer service platform. If our customers do not purchase our live chat software as a standalone service or as integrated with our customer service platform, our business, revenue, and operating results could be harmed.

***If our network or computer systems are breached or unauthorized access to customer data is otherwise obtained, our customer service platform and live chat software may be perceived as insecure, we may lose existing customers or fail to attract new customers, and we may incur significant liabilities.***

Use of our customer service platform and live chat software involve the storage, transmission, and processing of our customers' proprietary data, including personal or identifying information regarding their customers or employees. Unauthorized access to or security breaches of our customer service platform or live chat software 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, indemnity obligations, 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 incur significant expenses to prevent, investigate, and remediate security breaches and vulnerabilities, including deploying additional personnel and protection technologies, 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 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 customer service platform and live chat software are at risk for future breaches as a result of third-party action, employee, vendor, or contractor error, malfeasance, or other factors. For example, in February 2013, we experienced a security breach involving unauthorized access to three of our customers' accounts and personal information of consumers maintained in those customer accounts.

We have only been offering our live chat software since the completion of our acquisition of Zopim in March 2014. The systems, networks, personnel, equipment, and vendors utilized to provide our live chat software have historically been separate from those utilized in connection with our customer service platform and have not been subject to the same security reviews and assessments as those used to provide our customer service platform. Our failure to complete these assessments and implement improvements to the security measures deployed to protect our live chat software in a timely manner could increase our risk of a security breach with respect to this service, which would harm our business as a whole.

Because the techniques used and vulnerabilities exploited to obtain unauthorized access 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 implement adequate preventative measures. We may also experience security breaches that may remain undetected for an extended period.



---

**Table of Contents**

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

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

Our continued growth depends in part on the ability of our existing and potential customers to access our customer service platform and live chat software at any time and within an acceptable amount of time. Our customer service platform and live chat software 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 accessing our customer service platform or live chat software simultaneously, 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 customer service platform and live chat software become more complex and our user traffic increases. If our customer service platform or live chat software is unavailable or if our users are unable to access our customer service platform or live chat software within a reasonable amount of time or at all, our business would be negatively affected. In addition, our infrastructure does not currently support the real-time mirroring of data. 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 platform. 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 customer service platform or live chat software could adversely affect our operating results and growth prospects.***

Because our customer service platform and live chat software are complex, undetected errors, failures, vulnerabilities, or bugs may occur, especially when updates are deployed. Our customer service platform and live chat software 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 customer service platform, our live chat software, or other aspects of the computing environment into which they are deployed. In addition, deployment of our customer service platform or live chat software into complicated, large-scale computing environments may expose undetected errors, failures, vulnerabilities, or bugs in our customer service platform or live chat software. We have discovered and expect will continue to discover software errors, failures, vulnerabilities, and bugs in our customer service platform and live chat software, 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 customer service platform or live chat software could result in negative publicity, loss of or delay in market acceptance of our customer service platform or live chat software, loss of competitive position, or claims by customers for





**Table of Contents**

losses sustained by them. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem.

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

Our customer service platform and live chat software are deployed in a wide variety of technology environments and into a broad range of complex workflows. Increasingly, our customer service platform and live chat software have been 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 customer service platform and live chat software in such deployments. We often assist our customers in implementing our customer service platform and live chat software, but many customers attempt to implement even complex deployments themselves. If we or our customers are unable to implement our customer service platform or live chat software successfully, or unable to do so in a timely manner, customer perceptions of our customer service platform, our live chat software, and company may be impaired, our reputation and brand may suffer, and customers may choose not to renew or expand the use of our customer service platform or live chat software.

Our customers and third-party partners may need training in the proper use of our customer service platform or live chat software to maximize its potential. If our customer service platform or live chat software is not implemented or used correctly or as intended, inadequate performance may result. Because our customers rely on our customer service platform to manage a wide range of operations, the incorrect or improper implementation or use of our customer service platform, our failure to train customers on how to efficiently and effectively use our customer service platform, 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 customer service platform and live chat software.

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

In deploying and using our customer service platform and live chat software, our customers depend on our product support team 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. 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, could adversely affect our reputation, our ability to sell our customer service platform and live chat software to existing and prospective customers, our business, operating results, and financial position.

***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 in the areas of research and development, operations, security, marketing, sales, support, general and administrative functions, and on individual contributors



## **Table of Contents**

in our research and development and operations. 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 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 key employees could have an adverse effect on our business.

In addition, to execute 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, 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. 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 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.

***We are highly dependent upon free trials of our customer service platform and live chat software 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 customer service platform and our live chat software and other inbound lead generation strategies to generate sales opportunities. 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 to a paid version of our customer service platform or live chat software. Further, we often depend on individuals within an organization who initiate the trial versions of our customer service platform and live chat software being able to convince decision makers within their organization to convert to a paid version. Many of these organizations have complex and multi-layered purchasing requirements. 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.

***We face a number of risks in our strategy to increasingly target larger organizations for sales of our customer service platform and live chat software and, if we do not manage these efforts effectively, our business and results of operations could be adversely affected.***

As we target more of our sales efforts to larger organizations, we expect to incur higher costs and longer 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 our customer service platform or live chat software may require the approval of more 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. In addition, larger organizations may demand more features and integration services. We have limited experience in developing and managing sales channels and distribution arrangements for larger organizations. As a result of these



---

**Table of Contents**

factors, these sales opportunities may require us to devote greater research and development, sales, 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. Additionally, we may be required to increase our investments in our field sales and marketing efforts in order to target these larger organizations, increasing the costs associated with sales. Moreover, these transactions may require us to delay recognizing 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 customer service platform or live chat software. Furthermore, because we have limited experience selling to larger organizations, our investment in marketing our customer service platform 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 have fewer opportunities to expand usage of our customer service platform or sell additional functionality, and we may experience increased subscription terminations as compared to our experience with smaller organizations, any of which could harm our results of operations.

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

Increasing our customer base and achieving broader market acceptance of our customer service platform and live chat software will depend, to a significant extent, on our ability to effectively expand our sales and marketing operations and activities. We are substantially dependent on our online marketing efforts and on our direct sales force to obtain new customers. From December 31, 2013 to December 31, 2014, our sales and marketing organization increased from 165 to 303 employees. We plan to continue to expand our direct sales force both domestically and internationally and to increase the proportion of our sales professionals that have experience in selling to larger organizations. There is significant competition for experienced sales and marketing professionals with the skills and technical knowledge that we require. 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 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. We cannot predict whether, or to what extent, our sales will increase as we expand our sales and marketing functions or how long it will take for new personnel to become productive. Our business will be harmed if our sales and marketing efforts do not generate a significant increase in revenue.

***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 customer service platform based on the number of users they enable as agents to provide customer service under their customer account. At the same time, we provide features and functionality within our customer service platform that 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.

We separately charge for the use of our live chat software. Historically, we provided limited chat functionality within our customer service platform for no additional charge. With the integration of our live chat software into our customer service platform, we now generally require a separate subscription to enable chat functionality in connection with our customer service platform. We do not know whether



## **Table of Contents**

our customers or the market in general will accept this change in our pricing model and if it fails to gain acceptance our business and results of operations could be harmed.

Our terms of service 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 for the use of our customer service platform. We license access and use of our customer service platform and live chat software exclusively for our customers' internal use only. If customers improperly resell or otherwise make our customer service platform or live chat software available to their customers, it may cannibalize our sales or commoditize our customer service platform and live chat software in the market. Additionally, if a customer that has received a volume discount from us offers our customer service platform 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 customer service platform or live chat software by those customers.

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

***We do not have the history with our subscription or pricing models necessary 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 customer service platform and live chat software 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 customer service platform and live chat software matures, or as new competitors introduce new products 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. Pricing decisions may also impact the mix of adoption among our subscription plans and negatively impact our overall revenue. Moreover, larger organizations, which are a primary focus of our direct sales efforts, may demand substantial price concessions. As a result, in the future we may be required to reduce our prices, which could adversely affect our revenue, gross margin, profitability, financial position, and cash flow.

***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 medium-sized organizations that make purchasing decisions with limited interaction with our sales or other personnel. As we continue to focus on and 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 need to educate prospective customers about the uses and benefits of our customer service platform and live chat software;

the discretionary nature of purchasing and budget cycles and decisions;



the competitive nature of evaluation and purchasing processes;

evolving functionality demands;

announcements or planned introductions of new products, features, or functionality by us or our competitors;  
and

lengthy purchasing approval processes.

**Table of Contents**

Our 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.

***Our quarterly results may fluctuate for various other reasons, 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 other 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:

our ability to attract new customers, retain and increase sales to existing customers, and satisfy our customers requirements;

the number of new employees added;

the rate of expansion and productivity of our sales force;

changes in our or our competitors pricing policies;

the amount and timing of operating costs and capital expenditures related to the operations and expansion of our business;

new products, features, or functionalities introduced by our competitors;

significant security breaches, technical difficulties, or interruptions to our customer service platform or live chat software;

the timing of customer payments and payment defaults by customers;

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 the relative and absolute levels of product support and professional services we provide;

changes in foreign currency exchange rates;

extraordinary expenses such as litigation or other dispute-related settlement payments;

the impact of new accounting pronouncements; and

the timing of the grant or vesting of equity awards to employees.

Many of these factors are outside of our control, and the occurrence of one or more of them might cause our revenue, operating results, and cash flows 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.

---

**Table of Contents**

***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 entirely dependent on the number of users of our customer service platform or live chat software at each of our customers, 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 customer service platform and live chat software may be negatively affected. Historically, during economic downturns there have been reductions in spending on information technology and customer service systems as well as pressure for extended billing terms and other financial concessions. If 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.

***Our business depends substantially on our customers renewing their subscriptions and purchasing additional subscriptions from us. Any decline in our customer retention or expansion 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 to their customer accounts. Even though the majority of our revenue is derived from subscriptions to our customer service platform that have terms longer than one month, a significant portion of the subscriptions to our customer service platform 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 we do not have enough history to accurately predict long-term customer retention.

Our customer retention may decline or fluctuate as a result of a number of factors, including our customers satisfaction with our customer service platform or live chat software, 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. Our future success is also substantially dependent on our ability to sell more subscriptions to our current customers. If our customers do not renew their subscriptions, renew on less favorable terms or fail to add more agents, our revenue may decline, and we may not realize improved operating results from our customer base.

***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 word-of-mouth, online marketing, and our direct sales force to sell subscriptions to our customer service platform and live chat software. 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 that continued growth in our business is dependent upon identifying, developing, and maintaining strategic relationships with additional channel partners that can drive substantial revenue. Our agreements with our existing channel partners are non-exclusive, meaning our channel partners may offer customers the products of several different companies, including products that compete with ours. They may also cease marketing our customer service platform and live chat software with limited or no notice and with little



## **Table of Contents**

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 customer service platform or live chat software. 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 customer service platform or live chat software, our business, results of operations, and financial condition could be adversely affected. If our channel partners do not effectively market and sell our customer service platform or live chat software, 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 service 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 customer service platform from competitive products and services. We are highly dependent upon consumer tactics, including an emphasis on simplicity and a sense of humor in our advertising, to build our brand and develop brand loyalty. We do not have sufficient history to know if such brand promotion activities will ultimately be successful or yield increased revenue relative to traditional enterprise software marketing strategies. In addition, independent industry analysts often provide reviews of our customer service platform, as well as products and services offered by our competitors, and perception of our platform 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 in connection with sales through channel or strategic partners.

The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will 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.

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

In the three months ended December 31, 2013 and 2014, we derived 40% and 45% of our revenue from customers located outside of the United States, respectively, and for each of the fiscal years ended December 31, 2012, 2013, and 2014, we derived 41%, 41%, and 43% of our revenue from customers located outside of the United States, respectively. We are continuing to expand our international operations as part of our growth strategy. We currently have sales personnel and sales and product support operations in the United States and certain countries across Europe, Australia, Asia, and South America. Our sales organization outside the United States is substantially smaller than our sales organization in the United States and 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



**Table of Contents**

subscribe to our platform or to convince existing customers to renew or expand their use of our platform 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:

increased management, travel, 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;

economic conditions in each country or region and general economic uncertainty around the world;

compliance with foreign privacy and security laws and regulations and the risks and costs of non-compliance;

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 control laws, tariffs, trade barriers, economic sanctions, and other regulatory or contractual limitations on our ability to sell our customer service platform or live chat software 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 currency exchange rates and 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;

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; and

compliance with the laws of numerous foreign taxing jurisdictions, including withholding obligations, and overlapping of different tax regimes.

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.

---

**Table of Contents**

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 changes in government requirements as they change from time to time. Failure to comply with these regulations could have adverse effects on our business. 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 platform and services and could adversely affect our business and results of operations.

***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 customer service platform and live chat software that is enabled through mobile applications and other software we may be deemed to export. These encryption products and the underlying technology may be exported outside of the United States 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. As discussed further below, in 2013, we filed final voluntary disclosures to relevant U.S. enforcement authorities regarding our failure to obtain required export authorizations.

Furthermore, U.S. export control laws and economic sanctions prohibit the shipment of certain products and services to countries, territories, governments, and persons targeted by U.S. sanctions. While we are currently taking precautions to prevent our customer service platform and live chat software 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 customer service platform and live chat software that we suspect originate from countries which are subject to U.S. embargoes.

We are aware that trials of and subscriptions to our customer service platform have been initiated by persons and organizations in countries that are the subject of U.S. embargoes. Our provision of service in these instances was likely in violation of U.S. export control and sanctions laws. We have terminated the accounts of such organizations as we have become aware of them, and in April 2013, we filed final 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. In May 2013, OFAC notified us that it had completed its review of these matters and closed its review with the issuance of a cautionary letter. In July 2013, BIS notified us that it had completed its review with the issuance of a warning letter. No monetary penalties or other sanctions were imposed by either agency in connection with their investigations.

We are also aware that trials of, and paid and unpaid subscriptions to, our live chat software as delivered by Zopim, which is based in Singapore, have been initiated by persons and organizations in countries that are the subject of U.S. embargoes. Zopim also previously made available for download



---

**Table of Contents**

from the United States certain encryption-functionality software without first having obtained U.S. government authorization to export such software. In these instances, Zopim may have acted in violation of U.S. export controls and sanctions laws. Prior to and as a condition of the completion of our acquisition of Zopim, Zopim terminated the paid subscriptions of those customers believed to be located in jurisdictions subject to U.S. embargoes, screened its paid customers against applicable U.S. government lists of prohibited persons, implemented certain measures designed to prevent future unauthorized access to the service, and obtained U.S. government authorization to export its software. Zopim filed initial voluntary disclosures with OFAC and BIS in March 2014 to alert these agencies of its apparent prior violations. After completion of the acquisition, we conducted an internal investigation into these prior violations and filed voluntary self-disclosures with respect to these matters in June 2014 and September 2014. In January 2015, BIS notified us that it had completed its review of the potential violations of U.S. export controls laws by Zopim with the issuance of a warning letter. No monetary penalties or other sanctions were imposed by BIS in connection with its investigation. OFAC's review of Zopim's voluntary self-disclosure is ongoing.

If we are found to be in violation of U.S. sanctions or export control laws, it could result in fines or penalties for us and for individuals, including civil penalties of up to \$250,000 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 service through our customer service platform or live chat software 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 customer service platform and live chat software. Complying with export control and sanctions regulations for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Failure to comply with export 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 our platform or distribute our platform or could limit our customers' ability to implement our platform in those countries. Changes in our customer service platform or live chat software or future changes in export and import regulations may create delays in the introduction of our customer service platform or live chat software in international markets or prevent our customers with international operations from deploying our platform 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 customer service platform or live chat software by, or in our decreased ability to export or sell our customer service platform or live chat software to, existing or potential customers with international operations. Any decreased use of our customer service platform or live chat software or limitation on our ability to export or sell our customer service platform or live chat software 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



---

**Table of Contents**

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 monthly 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 customer service platform or live chat software, 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 customer service platform and live chat software are shorter than most 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 than for other SaaS companies. In addition, a significant majority of our costs are expensed as incurred, while revenue is recognized over the life of the agreement with our 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.***

Although we have not historically experienced significant seasonality in terms of the number of subscriptions for our customer service platform throughout the year, we may be impacted by seasonal trends in the future, particularly as our business matures. We do not have sufficient experience in selling our live chat software to determine if demand for this service is or will be subject to material seasonality. Since a large percentage of our subscriptions are monthly, customers are able to rapidly 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. This seasonality 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.

***Our ongoing and planned investments in self-managed colocation data centers 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 investments in new equipment for use in our self-managed colocation data centers to support our growth and provide enhanced levels of service to our customers. We made capital expenditures relating to hosting equipment for use in these data centers of \$0.8 million and \$0.2 million in the three months ended December 31, 2013 and 2014, respectively, and \$1.5 million, \$5.5 million, and \$6.2 million in the years ended December 31, 2012, 2013, and 2014, respectively. We have and are continuing to transition from primarily a managed-service hosting model, where a third party manages most aspects of our hosting operations, to a self-managed colocation model, where we have more direct control over the hosting infrastructure and its operation. This has and may continue to have a negative impact on our cash flows and gross profit as we invest in capital assets to establish and expand our use of these self-managed colocation data centers and scale these facilities to expected demand. If it takes longer than we expect to fully complete this transition, the negative impact on our operating results would likely exceed our initial expectations.

## **Table of Contents**

***Our business and growth depend in part 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 advanced analytics features of the higher end subscription plans of our customer service platform are highly dependent on our technology integration with GoodData, 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 platform until equivalent technology is either developed by us or, if available, identified, obtained, and integrated.

For deployments of our customer service platform 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 customer, 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 products or services or to prevent or reduce subscriptions to our platform.

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.

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

Our customer service platform and live chat software must integrate with a variety of network, hardware, and software platforms, and we need to continuously modify and enhance our customer service platform and live chat software to adapt to changes in cloud-enabled hardware, software, networking, browser, and database technologies. In particular, we have developed our platform 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 APIs. In general, we rely on the fact that the providers of such software systems, including salesforce.com, continue to allow us access to their APIs to enable these customer integrations. To date, we have not relied on a long-term written contract to govern our relationship with these providers. Instead, we are 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. Our business may be harmed if any provider of such software systems:

discontinues or limits our access to its APIs;





## Table of Contents

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 customer service platform 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 customer service platform 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 customer service platform 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 customer service platform or live chat software to operate effectively with future infrastructure platforms and technologies could also reduce the demand for our platform, resulting in customer dissatisfaction and harm to our business. If we are unable to respond to changes in a cost-effective manner, our platform may become less marketable, less competitive, or obsolete and our operating results may be negatively impacted.

***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, products, and other assets in the future. We also may enter into relationships with other businesses to expand our products and services, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing, or investments in other companies.

Any acquisition, including our acquisition of Zopim, investment or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, 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 platform, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management, or otherwise. For example, we only recently completed our acquisition of Zopim, and substantially all of the acquisition and integration risks remain. Acquisitions, including our acquisition of Zopim, 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 those transactions, we may:

issue additional equity securities that would dilute our existing stockholders;

**Table of Contents**

use cash that we may need in the future to operate our business;

incur large charges or substantial liabilities;

incur debt on terms unfavorable to us or that we are unable to repay;

encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; and

become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges.

***Because our customer service platform and live chat software 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 customer service platform or live chat software.***

Personal privacy and data security have become significant issues in the United States, Europe, and in many other jurisdictions where we offer our customer service platform or live chat software. 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. 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, including Directive 95/46/EC on the protection of individuals with regard to the processing of personal data and on the free movement of such data established in the European Union, or the Data Protection Directive, and data protection legislation of the individual member states subject to the Data Protection Directive. The Data Protection Directive will likely be replaced in time with the pending European General Data Protection Regulation which may impose additional obligations and risk upon our business. In many jurisdictions enforcement actions and consequences for non-compliance are also rising.

We certify adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and comply with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks with respect to our customer service platform, however, it is not clear whether or for how long applicable data protection authorities in the European Union will continue to recognize such certification as a valid method of compliance with restrictions set forth in the Data Protection Directive and data protection legislation of individual member states restricting the transfer of data outside of the European Economic Area. Since our live chat software is provided by Zopim, a company organized under the laws of Singapore, certification to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks with respect to our live chat software is not available (to the extent such safe harbor processes are still recognized). The inability to certify such compliance means that the EU Privacy Directive and other privacy regimes may impose additional obligations to obtain consent from data subjects to transfer personally identifiable information, or PII, outside of the European Union on the part of our EU-based customers that use our live chat software. Additionally, the inability to certify such compliance or otherwise provide acceptable privacy assurances may inhibit the sale and use of our live chat 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.

---

**Table of Contents**

Because the interpretation and application of many privacy and data protection laws and 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 customer service platform or live chat software. 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 customer service platform or live chat software, 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 customer service platform or live chat software. Privacy and data security concerns, whether valid or not valid, may inhibit market adoption of our customer service platform or live chat software, particularly in certain industries and foreign countries.

***We may 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 may claim that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. We may receive claims from third parties, including our competitors, that our customer service platform or live chat software 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 our customer service platform or live chat software, 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 customer service platform or live chat software, 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 customer service platform or live chat software, 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 customer service platform or live chat software, 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 customer service platform or live chat software 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



## **Table of Contents**

failure to implement adequate security measures with respect to their data stored, transmitted, or processed by our customer service platform or live chat software. 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 customer service platform, and harm our business and operating results.

***Our use of open source software could negatively affect our ability to sell our customer service platform and live chat software and subject us to possible litigation.***

We use open source software in our customer service platform and live chat software 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 customer service platform or live chat software, 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 customer service platform or live chat software or incur additional costs. Although we have implemented policies to regulate the use and incorporation of open source software into our customer service platform and live chat software, we cannot be certain that we have not incorporated open source software in our customer service platform or live chat software 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 one issued patent and have a limited number of patent applications, none of which may result in an issued patent. We primarily rely on copyright, trade secret and trademark laws, trade secret protection, 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 sales of equity securities, capital lease arrangements, loans for equipment, and subscription payments by our customers for use of our customer service platform and live chat software. 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 customer service platform, or unforeseen circumstances. We may not be able to timely secure additional debt or equity financing on favorable terms, or at all. Any debt financing obtained by us could





---

**Table of Contents**

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. 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 and vendors 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 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 do not currently maintain a program to hedge transactional exposures in foreign currencies. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

***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 and 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.



---

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

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 are subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. 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. 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. We believe that our financial statements reflect adequate reserves to cover such a contingency, but there can be no assurances in that regard.

***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 December 31, 2014, we had a total of \$14.2 million of goodwill and intangible assets related to our acquisition of Zopim. An adverse change in market conditions, particularly 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, 2014, we had federal and state net operating loss carryforwards, or NOLs, of \$133.0 million and \$47.5 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 can be 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 IPO. 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. There is also a risk that due to regulatory 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. 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 estimates of market opportunity and forecasts of market growth included in this prospectus 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.

***We may not be able to generate sufficient cash to service our indebtedness.***

As of December 31, 2014, we owed an aggregate principal and accrued interest amount of \$7.0 million pursuant to a credit facility. Our ability to make scheduled payments or to refinance our



---

**Table of Contents**

debt obligations depends on numerous factors, including the amount of our cash balances and our actual and projected financial and operating performance. We may be unable to maintain a level of cash balances or cash flows sufficient to permit us to pay the principal, premium, if any, and interest on our existing or future indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital, or restructure or refinance our indebtedness. We may not be able to take any of these actions, and even if we are, these actions may be insufficient to permit us to meet our scheduled debt service obligations. In addition, in the event of our breach of the credit facility, we may be required to repay any outstanding amounts earlier than anticipated.

***Our credit facility contains restrictive and financial covenants that may limit our operating flexibility.***

Our credit facility contains certain restrictive covenants that either limit our ability to, or require a mandatory prepayment in the event we, incur additional indebtedness and liens, merge with other companies or consummate certain changes of control, acquire other companies, engage in new lines of business, make certain investments, pay dividends, transfer or dispose of assets, amend certain material agreements, and enter into various specified transactions. We, therefore, may not be able to engage in any of the foregoing transactions unless we obtain the consent of our lender or prepay the outstanding amount under the credit facility. The credit facility also contains certain financial covenants, including minimum revenue and cash balance requirements, and financial reporting requirements. Our obligations under the credit facility are secured by all of our property, with limited exceptions. We may not be able to generate sufficient cash flow or sales to meet the financial covenants or pay the principal and interest under the credit facility. Furthermore, our future working capital, borrowings, or equity financing could be unavailable to repay or refinance the amounts outstanding under the credit facility. In the event of a liquidation, our lender would be repaid all outstanding principal and interest prior to distribution of assets to unsecured creditors, and the holders of our common stock would receive a portion of any liquidation proceeds only if all of our creditors, including our lender, were first repaid in full.

***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, 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 platform 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.

***Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for our platform, 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 platform in order to comply with these changes or

---

**Table of Contents**

substantially increase costs associated with the operation of our customer service platform and live chat software. Additionally, the adoption of any laws, regulations, or practices limiting Internet neutrality, could allow Internet service providers to block, degrade or interfere with our products or services. These laws, regulations, or practices could decrease the demand for, or the usage of, our products 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, worms, 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 our business.***

Our corporate headquarters are located in San Francisco, California and we operate in or utilize data centers that are located in North America, Europe, and Asia. Key features and functionality of our customer service platform 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, 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 platform, breaches of data security, and loss of critical data, all of which could have an adverse effect on our future operating results.

**Risks Related to Ownership of Our Common Stock and this Offering**

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

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;

**Table of Contents**

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;

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 products, 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, 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 control over matters subject to stockholder approval.***

As of February 28, 2015, our directors, officers, five percent or greater stockholders, and their respective affiliates beneficially owned in the aggregate approximately 53.3% of our outstanding voting stock and, upon the completion of



this offering, that same group will beneficially own in the aggregate approximately 47.6% of our outstanding voting stock (assuming no exercise of the underwriters' option to purchase additional shares). As a result, these stockholders have the ability to influence us through this ownership position. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control 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

---

**Table of Contents**

perception in the market that holders of a large number of shares intend to sell their shares. After this offering, we will have outstanding 83,097,076 shares of our common stock, based on the number of shares outstanding as of December 31, 2014 and after giving effect to the issuance of 20,000 shares of common stock to be acquired by a certain selling stockholder upon the exercise of options in order to sell those shares in this offering. This includes the 8,530,000 shares included in this offering and all 12,777,777 shares of our common stock sold by us in our IPO, which may be resold in the public market immediately, subject in some cases to volume and other restrictions of Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. Of the remaining shares, 43,471,766 shares are available for sale, subject in some cases to volume and other restrictions of Rule 144 and Rule 701 under the Securities Act. 18,317,533 shares are subject to lock-up agreements with Goldman, Sachs & Co. and Morgan Stanley & Co. LLC that, subject to certain exceptions (including sales pursuant to existing sales plans adopted pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, or the Exchange Act), are restricted from sale through May 31, 2015. Goldman, Sachs & Co. and Morgan Stanley & Co. LLC may, in their sole discretion, permit our officers and directors, and the selling stockholders who are subject to lock-up agreements, to sell shares prior to the expiration of the lock-up agreements.

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. See *Shares Eligible for Future Sale* for a more detailed description of sales that may occur in the future.

Certain holders of our common stock will 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 our stockholders or ourselves.

***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 the 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

---

**Table of Contents**

require the approval of our board of directors or the holders of at least seventy-five percent (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 Delaware General Corporation Law, 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.

***We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are an emerging growth company, as defined in the federal securities laws, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We will remain an emerging growth company until the last day of the fiscal year following the five-year anniversary of the completion of our IPO, although if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the end of the second quarter of a fiscal year prior to the five-year anniversary, we would cease to be an emerging growth company as of the following December 31.

***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, particularly after we are no longer an emerging growth company. 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 we are required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting



## **Table of Contents**

for the first fiscal year beginning after the effective date of our IPO. However, our independent registered public accounting firm is not required to formally audit and attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the later of the year following our first annual report required to be filed with the SEC, or the date we are no longer an emerging growth company. 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 may invest or spend the proceeds of this offering in ways with which you may not agree or in ways which may not yield a return.***

Our management will have considerable discretion in the application of the net proceeds of this offering that we receive, and you will not have the opportunity, as part of your investment decision, to assess whether these proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not increase the value of our business, which could cause our stock price to decline.

***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



**Table of Contents**

addition, our ability to pay cash dividends on our common stock is restricted by our current credit facility and may be prohibited or limited by the terms of our current and 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 industry analysts cease coverage of us, the trading price for our common stock would be negatively affected. 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 Delaware General Corporation Law, 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.



**Table of Contents**

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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;

the sufficiency of our cash and cash equivalents, and marketable securities to meet our liquidity needs;

our ability to attract and retain customers to use our customer service platform and live chat software, and to optimize the pricing for our customer service platform and live chat software;

the evolution of technology affecting our platform, services, and markets;

our ability to innovate and provide a superior customer experience;

our ability to successfully expand in our existing markets and into new markets;

the attraction and retention of qualified employees and key personnel;

our ability to effectively manage our growth and future expenses;

our ability to successfully offer our live chat software as a standalone service or further integrate it with our customer service platform;

our ability to maintain, protect, and enhance our intellectual property;

our ability to comply with modified or new laws and regulations applying to our business, including privacy and data security regulations;

worldwide economic conditions and their impact on information technology spending;

our ability to securely maintain customer data;

our ability to maintain and enhance our brand; and

our use of the net proceeds of this offering.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this prospectus.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this prospectus 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 prospectus. 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 prospectus. We cannot assure you that the results, events, and

**Table of Contents**

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 prospectus 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 prospectus to reflect events or circumstances after the date of this prospectus 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.

**Table of Contents**

**INDUSTRY AND MARKET DATA**

This prospectus contains statistical data, estimates, and forecasts that are based on independent industry publications, such as those published by IDC, or other publicly available information, as well as other information based on our internal sources. Although we believe that the third-party sources referred to in this prospectus are reliable, neither we, the selling stockholders, nor the underwriters have independently verified the information provided by these third parties. While we are not aware of any misstatements regarding any third-party information presented in this prospectus, their estimates, in particular, as they relate to projections, involve numerous assumptions, are subject to risks and uncertainties, and are subject to change based on various factors, including those discussed under the section titled **Risk Factors** and elsewhere in this prospectus.

**Table of Contents**

**USE OF PROCEEDS**

We estimate that the net proceeds from the sale of shares of our common stock that we are selling in this offering will be approximately \$162.3 million, based on an offering price of \$22.75 per share, and after deducting underwriting discounts and commissions of \$7.4 million and estimated offering expenses of \$0.9 million payable by us. If the underwriters' option to purchase additional shares from us is exercised in full, we estimate that our net proceeds would be approximately \$190.1 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders.

The principal purposes of this offering are to raise additional capital and facilitate an orderly distribution of shares for the selling stockholders.

We intend to use the net proceeds that we receive from this offering for working capital or other general corporate purposes, including the further expansion and development of our customer service platform and live chat software, the development of new products and services, continued expansion of our sales and marketing capabilities, and international expansion. We may also use a portion of the net proceeds to acquire complementary businesses, products, services, or technologies. However, we have not entered into any agreements or commitments for any specific acquisitions at this time.

The amount and timing of our actual use of the net proceeds that we will receive from this offering will depend on numerous factors, including the cash used in or generated by our operations, the activities of our sales organization, the level of our international expansion efforts, the results of our product development efforts, and our technology acquisitions. Our management has discretion over many of these factors. Therefore, except as specified above, we are unable to estimate the amount of the net proceeds from this offering that will be used for any of the purposes described above. Accordingly, we will have broad discretion in using these proceeds. Pending the use of proceeds from this offering as described above, we plan to invest the net proceeds that we receive in this offering in short-term and intermediate-term interest-bearing obligations, investment-grade investments, certificates of deposit, or direct or guaranteed obligations of the U.S. government.

**Table of Contents****MARKET PRICE OF COMMON STOCK**

Our common stock has been listed on the NYSE under the symbol ZEN since May 15, 2014, the date of our IPO. Prior to that date, there was no public trading market for our common stock. The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on the NYSE:

	<b>High</b>	<b>Low</b>
<b>2014</b>		
Second quarter (from May 15, 2014)	\$ 18.75	\$ 11.06
Third quarter	\$ 28.05	\$ 15.50
Fourth quarter	\$ 28.20	\$ 19.39
<b>2015</b>		
First quarter (through March 18, 2015)	\$ 26.37	\$ 21.27

On March 18, 2015, the last reported sale price of our common stock on the NYSE was \$23.30 per share. As of December 31, 2014, we had 117 stockholders of record of our common stock. The actual number of stockholders is greater than this number of stockholders of record, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers, trusts, and other nominees.

**Table of Contents**

**DIVIDEND POLICY**

We have never declared or paid any cash dividend on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, operating results, capital requirements, contractual restrictions, general business conditions, and other factors that our board of directors may deem relevant. Currently, our credit facility prohibits the payment of any dividends without obtaining the lender's prior written consent, other than dividends payable solely in our common stock.

**Table of Contents****CAPITALIZATION**

The following table sets forth our cash and cash equivalents, and marketable securities, as well as our capitalization, as of December 31, 2014:

on an actual basis; and

on an as adjusted basis, giving effect to (A) the sale and issuance by us of 7,500,000 shares of common stock in this offering, based on the public offering price of \$22.75 per share, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, and (B) the issuance of 20,000 shares of common stock to be acquired by a certain stockholder upon the exercise of options in order to sell those shares in this offering.

The as adjusted information set forth in the table below is illustrative only and will be adjusted based on the actual public offering price and other final terms of this offering. You should read this table together with our financial statements and related notes, and the sections titled Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations that are included elsewhere in this prospectus.

	<b>As of December 31, 2014</b>	
	<b>Actual</b>	<b>As Adjusted</b>
	<b>(In thousands, except share and per share data)</b>	
Cash and cash equivalents	\$ 80,265	\$ 242,543
Marketable securities	42,204	42,204
Preferred stock, par value \$0.01 per share: 10,000,000 shares authorized, no shares issued and outstanding, actual and as adjusted		
Common stock, par value \$0.01 per share: 400,000,000 shares authorized, 76,111,753 shares issued, 75,577,076 shares outstanding, actual; 400,000,000 shares authorized, 83,631,753 shares issued, 83,097,076 shares outstanding, as adjusted	755	830
Additional paid-in capital	246,000	408,203
Accumulated other comprehensive loss	(528)	(528)
Accumulated deficit	(131,869)	(131,869)
Treasury stock at cost: 534,677 shares actual and as adjusted	(652)	(652)
<b>Total stockholders' equity</b>	<b>113,706</b>	<b>275,984</b>
<b>Total capitalization</b>	<b>\$ 113,706</b>	<b>\$ 275,984</b>

If the underwriters' option to purchase additional shares from us were exercised in full, as adjusted cash and cash equivalents, additional paid-in capital, total stockholders' equity, and shares issued and outstanding as of December 31,



2014 would be \$270.4 million, \$436.0 million, \$303.8 million, and 84,376,576 shares, respectively.

The as adjusted column in the table above excludes the following:

12,044,546 shares of our common stock issuable upon the exercise of options to purchase common stock that were outstanding as of December 31, 2014 with a weighted-average exercise price of \$7.39 per share (other than 20,000 shares to be issued upon exercise of an option to purchase common stock by a certain stockholder and sold in this offering);

3,063,455 shares of our common stock subject to restricted stock units outstanding as of December 31, 2014;

**Table of Contents**

1,318,800 shares of our common stock issuable upon the exercise of options to purchase common stock granted after December 31, 2014 through February 28, 2015, with a weighted-average exercise price of \$24.75 per share;

1,852,932 shares of our common stock subject to restricted stock units granted after December 31, 2014 through February 28, 2015;

7,559,573 shares of our common stock reserved for future issuance under our 2014 Stock Option and Incentive Plan as of December 31, 2014;

3,197,419 shares of our common stock reserved for future issuance under our 2014 Employee Stock Purchase Plan as of December 31, 2014; and

any shares of our common stock that become available subsequent to this offering under our 2014 Stock Option and Incentive Plan and 2014 Employee Stock Purchase Plan pursuant to provisions thereof that automatically increase the share reserves under such plans each year, as more fully described in Executive Compensation Employee Benefit and Stock Plans.

**Table of Contents****DILUTION**

If you invest in our common stock in this offering, your ownership interest will be diluted to the extent of the difference between the public offering price per share of our common stock and the as adjusted net tangible book value per share of our common stock immediately after this offering. Net tangible book value dilution per share to new investors represents the difference between the amount per share paid by purchasers of shares of common stock in this offering and the as adjusted net tangible book value per share of common stock immediately after the completion of this offering.

Net tangible book value per share is determined by dividing our total tangible assets less our total liabilities by the number of shares of common stock outstanding. Our historical net tangible book value as of December 31, 2014 was \$85.9 million, or \$1.14 per share. Our historical net tangible book value excludes \$14.2 million of goodwill and intangible assets, net and \$13.6 million of capitalized internal-use software, net of amortization.

After giving effect to (A) the sale by us of 7,500,000 shares of common stock in this offering at the public offering price of \$22.75 per share, and after deducting underwriting discounts and commissions of \$7.4 million and estimated offering expenses of \$0.9 million payable by us, and (B) the issuance of 20,000 shares of common stock to be acquired by a certain stockholder upon the exercise of options in order to sell those shares in this offering, our as adjusted net tangible book value as of December 31, 2014 would have been \$248.2 million, or \$2.99 per share. This represents an immediate increase in net tangible book value of \$1.85 per share to our existing stockholders and an immediate dilution in net tangible book value of \$19.76 per share to investors purchasing shares of common stock in this offering at the public offering price. The following table illustrates this dilution:

Public offering price per share	\$ 22.75
Net tangible book value per share as of December 31, 2014	\$ 1.14
Increase in net tangible book value per share attributable to new investors in this offering	1.85
As adjusted net tangible book value per share immediately after this offering	2.99
Dilution in net tangible book value share to new investors in this offering	\$ 19.76

If the underwriters exercise their option to purchase additional shares from us in full, the as adjusted net tangible book value per share of our common stock immediately after this offering would be \$3.27 per share, and the dilution in net tangible book value per share to new investors in this offering would be \$19.48 per share.

The following table presents, on an as adjusted basis as of December 31, 2014, the differences between the existing stockholders (including 20,000 shares to be sold in this offering by a certain stockholder upon the exercise of options) and the new investors purchasing shares of our common stock in this offering with respect to the number of shares purchased from us, the total consideration paid or to be paid to us, which includes net proceeds received from the issuance of common stock, cash received from the exercise of stock options, and the average price per share paid or to be paid to us at the public offering price of \$22.75 per share, before deducting underwriting discounts and commissions and estimated offering expenses payable by us:

Shares Purchased	Total Consideration
------------------	---------------------

Edgar Filing: Zendesk, Inc. - Form 424B4

	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Average Price Per Share</b>
Existing stockholders	75,597,076	91.0%	\$ 201,065,437	54.1%	\$ 2.66
New investors	7,500,000	9.0%	\$ 170,625,000	45.9%	\$ 22.75
<b>Totals</b>	<b>83,097,076</b>	<b>100.0%</b>	<b>\$ 371,690,437</b>	<b>100.0%</b>	<b>\$ 4.47</b>

**Table of Contents**

Except as otherwise indicated, the above discussion and tables assume no exercise of the underwriters' option to purchase additional shares. If the underwriters exercise their option to purchase additional shares from us in full, the total consideration paid by new investors and total consideration paid by all stockholders would increase by \$29.1 million. Following such exercise, our existing stockholders would own 89.6% and our new investors would own 10.4% of the total number of shares of our common stock outstanding upon the completion of this offering.

The number of shares of our common stock to be outstanding after this offering is based on 75,577,076 shares of our common stock outstanding as of December 31, 2014 and 20,000 shares to be issued upon exercise of an option to purchase common stock by a certain selling stockholder and sold in this offering, and excludes:

12,044,546 shares of our common stock issuable upon the exercise of options to purchase common stock that were outstanding as of December 31, 2014 with a weighted-average exercise price of \$7.39 per share (other than 20,000 shares to be issued upon exercise of an option to purchase common stock by a certain selling stockholder and sold in this offering);

3,063,455 shares of our common stock subject to restricted stock units outstanding as of December 31, 2014;

1,318,800 shares of our common stock issuable upon the exercise of options to purchase common stock granted after December 31, 2014 through February 28, 2015 with a weighted-average exercise price of \$24.75 per share;

1,852,932 shares of our common stock subject to restricted stock units granted after December 31, 2014 through February 28, 2015;

7,559,573 shares of our common stock reserved for future issuance under our 2014 Stock Option and Incentive Plan as of December 31, 2014;

3,197,419 shares of our common stock reserved for future issuance under our 2014 Employee Stock Purchase Plan as of December 31, 2014; and

any shares of our common stock that become available subsequent to this offering under our 2014 Stock Option and Incentive Plan and 2014 Employee Stock Purchase Plan pursuant to provisions thereof that automatically increase the share reserves under such plans each year, as more fully described in Executive Compensation, Employee Benefit and Stock Plans.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The following consolidated statements of operations for the years ended December 31, 2012, 2013, and 2014 and the selected consolidated balance sheet data as of December 31, 2013 and 2014 are derived from the audited consolidated financial statements that are included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future. You should read the following selected consolidated financial data below in conjunction with the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this prospectus.

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(In thousands, except per share data)</b>		
<b>Consolidated Statements of Operations Data:</b>			
Revenue	\$ 38,228	\$ 72,045	\$ 127,049
Cost of revenue <sup>(1)</sup>	13,253	24,531	46,047
Gross profit	24,975	47,514	81,002
Operating expenses <sup>(1)</sup>			
Research and development	14,816	15,288	36,403
Sales and marketing	22,749	37,622	77,875
General and administrative	11,558	16,437	32,869
Total operating expenses	49,123	69,347	147,147
Operating loss	(24,148)	(21,833)	(66,145)
Other expense, net	(96)	(517)	(1,533)
Loss before provision for (benefit from) income taxes	(24,244)	(22,350)	(67,678)
Provision for (benefit from) income taxes	121	221	(263)
Net loss	(24,365)	(22,571)	(67,415)
Accretion of redeemable convertible preferred stock	(50)	(49)	(18)
Deemed dividend to investors in relation to the tender offer	(8,326)		
Net loss attributable to common stockholders	\$ (32,741)	\$ (22,620)	\$ (67,433)
Net loss per share attributable to common stockholders, basic and diluted <sup>(2)</sup>	\$ (1.67)	\$ (1.04)	\$ (1.26)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted <sup>(2)</sup>	19,629	21,674	53,571

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

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(In thousands)</b>		
Cost of revenue	\$ 129	\$ 254	\$ 2,464
Research and development	4,117	635	10,918
Sales and marketing	1,313	1,210	10,680
General and administrative	4,081	2,755	8,077

**Table of Contents**

- (2) See Note 10 of the Notes to our Consolidated Financial Statements included elsewhere in this prospectus for an explanation of the method used to calculate basic and diluted net loss per share attributable to common stockholders and the weighted-average number of shares used in the computation of the per share amounts.

	<b>As of December 31,</b>	
	<b>2013</b>	<b>2014</b>
	<b>(In thousands)</b>	
<b>Consolidated Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 53,725	\$ 80,265
Marketable securities	9,889	42,204
Working capital	31,706	60,856
Property and equipment, net	15,431	41,895
Goodwill and intangible assets, net		14,152
Total assets	92,736	205,788
Deferred revenue	29,048	51,731
Credit facility	23,760	6,952
Total liabilities	67,643	92,082
Redeemable convertible preferred stock	71,369	
Stockholders' equity (deficit)	(46,276)	113,706



---

**Table of Contents**

**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 the section titled "Selected Consolidated Financial Data" and consolidated financial statements and related notes thereto included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" included elsewhere in this prospectus.*

**Overview**

Zendesk's mission is to help organizations and their customers build better relationships. We are a software development company that provides a SaaS customer service platform that enables our customers to provide tailored support through multiple channels, establish effective self-service support resources, proactively serve customers through customer engagement capabilities, integrate with other applications, and consolidate and analyze data from customer interactions. We also provide SaaS live chat software that can be utilized independently to facilitate proactive communications between organizations and their customers or integrated easily into our platform.

Our business model is designed to drive organic growth, leverage positive word-of-mouth, and remove friction from the evaluation and purchasing process. We offer a range of subscription account plans for our customer service platform and live chat software that vary in pricing based on functionality, type, and, for our customer service platform, the amount of product support we offer and service-level guarantees. The majority of our customers find us online and subscribe to our customer service platform and live chat software directly from our websites. During the three months ended December 31, 2014, approximately 64% of our qualified sales leads generated online, and approximately 62% of the total qualified sales leads for our customer service platform, came from organic search, customer referrals, and other unpaid sources. We use tools provided by third-parties to measure the percentage of qualified sales leads generated online and of the total qualified leads for our customer service platform that came from organic search, customer referrals, and other unpaid sources. While we expect that a shift in these values is generally related to a change in the mix of qualified sales leads from paid and unpaid sources, there may be instances where changes in these values are a result of changes by the third-party providers to the tools used to measure these values or the underlying data used by such tools. During the three months ended December 31, 2014, we experienced a decrease in the percentage of qualified sales leads generated online and of the total qualified leads for our customer service platform that came from organic search, customer referrals, and other unpaid sources as compared to prior periods. We believe that our increased investment in our field sales and marketing efforts and other paid sources of qualified leads contributed significantly to this shift. As we continue to invest in field marketing efforts and adopt new marketing initiatives, we expect that the percentage of qualified sales leads generated from organic search, customer referrals, and other unpaid sources may continue to decline.

Our largest source of qualified sales leads is free trials of our customer service platform commenced by prospects. For larger organizations, our sales team focuses on a land and expand strategy, which leverages this grassroots adoption and seeks to expand our footprint within organizations. More recently we have begun to develop our field sales and marketing teams primarily responsible for lead discovery, qualification, and account management for larger organizations. Many of our existing customers to date have been small to medium sized organizations that make purchasing decisions with limited interaction with our sales or other personnel; as we continue to focus on and become more dependent on sales to larger organizations and increase our investment in paid



## **Table of Contents**

sources of qualified leads, we expect the percentage of qualified leads that come from unpaid sources, such as organic search and customer referrals, to decrease and our sales cycles to lengthen and become less predictable.

For the years ended December 31, 2012, 2013, and 2014, our revenue was \$38.2 million, \$72.0 million, and \$127.0 million, respectively, representing an 88% annual growth rate from 2012 to 2013 and a 76% annual growth rate from 2013 to 2014. For the years ended December 31, 2012, 2013, and 2014 we derived \$15.8 million, or 41%, \$29.6 million, or 41%, and \$54.8 million, or 43%, 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 years ended December 31, 2012, 2013, and 2014, we generated net losses of \$24.4 million, \$22.6 million, and \$67.4 million, respectively. We intend to continue to invest aggressively to drive continued growth and market leadership.

The growth of our business and our future success depends on many factors, including our ability to continue to innovate, maintain our leadership in the SMB market, expand our enterprise customer base, and increase our global customer footprint. While these areas represent significant opportunities for us, we also face significant risks and challenges that we must successfully address in order to sustain the growth of our business and improve our operating results. We anticipate that we will expand our operations and headcount in the near term. The expected addition of new personnel and the investments that we anticipate will be necessary to manage our anticipated growth, including investments in leasehold improvements and related fixed assets, will make it more difficult for us to achieve profitability. Many of these investments will occur in advance of 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 make significant upfront investments in our self-managed colocation data center infrastructure and additional personnel to support our growth. The amount and timing of these upfront infrastructure investments will vary based on our estimates of projected growth and the scale of such deployments. We also expect to continue to make significant investments in our customer support organization including expanding our product support and professional services teams. Over time, we anticipate that we will gain economies of scale by utilizing added capacity within our self-managed colocation data centers and reducing the need for direct incremental personnel costs resulting from growth in our number of customers. As a result, we expect our gross margin to improve in the future, although our gross margin may fluctuate from period to period as our revenue fluctuates and as a result of the timing and amount of investments to expand our product support team, investments in additional personnel, equipment, and facilities to support our platform architecture, increased share-based compensation expenses, as well as the amortization of costs associated with capitalized internal-use software and purchased intangible assets.

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 introduce new products and broaden our customer service platform's functionality. We plan to continue to expand our sales and marketing organizations, particularly in connection with our efforts to expand our enterprise customer base. We also expect to incur additional general and administrative costs in order to support the growth of our business and the infrastructure required with our obligations as a public company.

## **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.



**Table of Contents**

**Number of Paid Customer Accounts.** We believe that our ability to increase our number of paid accounts on our customer service platform and live chat software 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 our customer service platform, exclusive of our Starter plan, free trials or other free services, and the number of accounts using our live chat software, exclusive of free trials or other free services, each as of the end of the period and as identified by a unique account identifier. Use of our customer service platform and live chat software requires separate subscriptions and each of these accounts is treated as a separate paid customer account. Existing customers may also expand their utilization of our customer service platform or live chat software by adding new accounts and a single consolidated organization or customer may have multiple accounts across each of our customer service platform and live chat software to service separate subsidiaries, divisions, or work processes. Each of these accounts is also treated as a separate paid customer account. An increase in the number of paid customer accounts generally correlates to an increase in the number of authorized agents licensed to use our platform, 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 52,500 paid customer accounts as of December 31, 2014, including approximately 27,600 paid customer accounts on our customer service platform and approximately 24,900 paid customer accounts using our live chat software. As the total number of paid customer accounts increases, we expect the rate of growth in the number of paid customer accounts to decline.

Prior to December 31, 2014, we measured the number of customer accounts on our customer service platform, exclusive of free trials or other free services, but including our low cost Starter plan, as of the end of specified periods as identified by a unique account identifier. We believe that including the number of paid customer accounts for both our customer service platform and our live chat software in the number of paid customer accounts, while eliminating our Starter plan from this metric, provides an operating metric that reflects the customer accounts that have the most impact on our operating results.

The number of paid customer accounts, as currently calculated, and the number of customer accounts, as previously calculated, as of the last day of each quarter in the fiscal year ended December 31, 2014 is presented below for comparative purposes.

	<b>March 31, 2014</b>	<b>June 30, 2014</b>	<b>As of September 30, 2014</b>	<b>December 31, 2014</b>
Paid customer accounts on our customer service platform (approximate)	22,100	24,000	25,900	27,600
Paid customer accounts using our live chat software (approximate)	17,800	20,100	22,500	24,900
Total paid customer accounts (approximate)	39,900	44,100	48,400	52,500
Customer accounts (as previously calculated)	42,685	45,740	48,763	51,721

**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 customer service platform. 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 on our customer service platform, and results in upgrades to higher-priced subscription plans. 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 customer service platform. We

---

**Table of Contents**

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 on our customer service platform, and upgrades in subscription plan, as offset by churn, contraction in authorized agents associated with a paid customer account on our customer service platform, and downgrades in subscription plans. We do not currently incorporate operating metrics associated with our live chat software into our measurement of dollar-based net expansion rate.

Our dollar-based net expansion rate is based upon our monthly recurring revenue for a set of paid customer accounts on our customer service platform. 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 one-time discounts or any platform usage above the subscription base, if any, that may be applicable to such subscription. 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 monthly recurring revenue of the paid customer accounts on our customer service platform 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 monthly recurring revenue of 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 the transfer of agents between paid customer accounts, 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 results in our dollar-based net expansion rate being calculated across approximately 25,900 customers, as compared to the approximately 27,600 total paid customer accounts as of December 31, 2014. 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 on our customer service platform. Our measurement of the percentage of monthly recurring revenue for our customer service platform generated by customers with 100 or more agents on our customer service platform similarly includes adjustments to aggregate paid customer accounts that share common corporate information.

As of December 31, 2014, we adjusted our calculation of dollar-based net expansion rate to exclude customer accounts on the low cost Starter plan for our customer service platform. In prior periods, we presented a dollar-based net expansion rate, or the historic dollar-based net expansion rate, which included customer accounts on our low-cost Starter subscription plan for our customer service platform. We calculated the historic dollar-based net expansion rate in the same manner as our current calculation of the dollar-based net expansion rate, with the exception that the customer base used in the determination of retained revenue net of contraction and churn and base revenue included the customer accounts on our low cost Starter subscription plan while our current calculation of dollar-based net expansion rate excludes these accounts. While relatively insignificant, we believe that the exclusion of subscriptions to our low cost Starter plan from our calculation of net dollar expansion provides a more useful measure of the effectiveness of resources we deploy to expand our relationships with existing customers.





**Table of Contents**

Our dollar-based net expansion rate was 120% as of December 31, 2014. We expect our dollar-based net expansion rate to decline over time as our aggregate monthly recurring revenue grows.

The operating metric for our current calculation of dollar-based net expansion rate and our historic dollar-based net expansion rate for the last day of each quarter in the fiscal year ended December 31, 2014 is presented below for comparative purposes.

	<b>March 31, 2014</b>	<b>June 30, 2014</b>	<b>As of September 30, 2014</b>	<b>December 31, 2014</b>
Current calculation of dollar-based net expansion rate	121%	120%	121%	120%
Historic dollar-based net expansion rate	123%	122%	123%	122%

**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 our customer service platform and, to a lesser extent, live chat software. Each subscription may have multiple authorized users, and we refer to each such user as an agent. The number of agents ranges from one to thousands for various customer accounts. Our pricing is generally established on a per agent basis. We offer a range of subscription account plans for our customer service platform and live chat software that vary in pricing based on functionality, type and, for our customer service platform, the amount of product support we offer and service-level guarantees. Certain arrangements provide for incremental fees above a fixed maximum number of monthly agents during the subscription term. 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 contractual 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 frequency. 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 is an accurate indicator of future revenue for a given period of time.

We derive an immaterial amount of revenue from implementation, voice, and training services, for which we recognize revenue upon completion.

**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 platform infrastructure and our product support

organizations, depreciation and other expenses associated with our self-managed colocation data centers, data center costs related to hosting our platform, amortization expense associated with capitalized internal-use software, payment processing fees, amortization

## **Table of Contents**

expense associated with purchased intangible assets, and allocated shared costs. We allocate shared costs such as facilities, shared information technology and security costs, and employee benefit costs to all departments based on headcount. As such, allocated shared costs are reflected in cost of revenue and each operating expense category.

We currently utilize third-party managed hosting facilities located in North America, Europe, and Asia and self-managed colocation data centers in which we manage our own network equipment and systems. We currently operate in three such self-managed colocation data centers located in California, Virginia, and Ireland. In order to improve our long-term cost efficiency, we intend to expand our operations in these and establish other self-managed colocation data centers over time. Our live chat software was originally hosted in a managed hosting facility in Florida and in January 2015, we migrated all accounts to our self-managed colocation facility in Ireland. In certain markets and for certain products, we may elect not to pursue our self-managed colocation strategy, depending on individual market dynamics.

We intend to continue to invest additional resources in our platform infrastructure and our product support organizations. As we continue to invest in technology innovation, we expect to have increased capitalized internal-use software costs and related amortization. We expect our investment in technology to not only expand the capability of our customer service platform and live chat software but also increase the efficiency of how we deliver our customer service platform and live chat software, enabling us to improve our gross margin over time. The level and timing of investment in these areas could affect our cost of revenue in the future.

*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 investments to expand our product support and professional services teams, investments in additional personnel, equipment, and facilities to support our platform architecture, increased share-based compensation expenses, as well as the amortization of costs associated with capitalized internal-use software and purchased intangible assets.

*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 customer service platform and live chat software, including the development and deployment of new features and functionality and enhancements to our software architecture. 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 extent of our research and development expenses. In particular, these expenses are sensitive to the impact of share-based compensation which may cause these expenses to fluctuate from period to period.

*Sales and Marketing.* Sales and marketing expenses consist of personnel costs (including salaries, commissions, share-based compensation, and benefits) for employees associated with our sales and marketing organizations, costs of marketing activities, and allocated shared costs. Marketing activities include online lead generation, advertising, promotional events, and public and community relations. Sales commissions and other incremental costs to acquire contracts are expensed as incurred.

We focus our sales and marketing efforts on generating awareness of our company, creating sales leads, establishing and promoting our brand, and cultivating a community of successful and vocal



## **Table of Contents**

customers. We plan to continue investing in sales and marketing by increasing the number of direct sales employees, developing our field sales and marketing teams, expanding our indirect sales channels, 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. In particular, these expenses are sensitive to the impact of share-based compensation which may cause these expenses to fluctuate from period to period.

*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, tax, and accounting services, and 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, tax, and accounting services fees, insurance costs, board of directors compensation and costs of achieving and maintaining compliance with Section 404 of the Sarbanes-Oxley Act, 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. In particular, these expenses are sensitive to the impact of share-based compensation which may cause these expenses to fluctuate from period to period.

### ***Other Expense, Net***

Other expense, net consists primarily of interest expense associated with our credit facility and foreign currency losses, offset by interest income from marketable securities.

### ***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. See Note 11 of the Notes to our Consolidated Financial Statements included elsewhere in this prospectus.

**Table of Contents****Results of Operations for Fiscal Years 2012, 2013, and 2014**

The following tables set forth our results of operations for the periods presented in dollars and as a percentage of our revenue:

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(In thousands)</b>		
Revenue	\$ 38,228	\$ 72,045	\$ 127,049
Cost of revenue <sup>(1)</sup>	13,253	24,531	46,047
Gross profit	24,975	47,514	81,002
Operating expenses <sup>(1)</sup>			
Research and development	14,816	15,288	36,403
Sales and marketing	22,749	37,622	77,875
General and administrative	11,558	16,437	32,869
Total operating expenses	49,123	69,347	147,147
Operating loss	(24,148)	(21,833)	(66,145)
Other expense, net	(96)	(517)	(1,533)
Loss before provision for (benefit from) income taxes	(24,244)	(22,350)	(67,678)
Provision for (benefit from) income taxes	121	221	(263)
Net loss	\$ (24,365)	\$ (22,571)	\$ (67,415)

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

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(In thousands)</b>		
Cost of revenue	\$ 129	\$ 254	\$ 2,464
Research and development	4,117	635	10,918
Sales and marketing	1,313	1,210	10,680
General and administrative	4,081	2,755	8,077

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(As a percentage of revenue)</b>		
Revenue	100.0%	100.0%	100.0%
Cost of revenue <sup>(1)</sup>	34.7	34.0	36.2

Gross profit	65.3	66.0	63.8
Operating expenses <sup>(1)</sup>			
Research and development	38.8	21.2	28.7
Sales and marketing	59.5	52.2	61.3
General and administrative	30.2	22.8	25.9
Total operating expenses	128.5	96.3	115.8
Operating loss	(63.2)	(30.3)	(52.1)
Other expense, net	(0.3)	(0.7)	(1.2)
Loss before provision for (benefit from) income taxes	(63.4)	(31.0)	(53.3)
Provision for (benefit from) income taxes	0.3	0.3	(0.2)
Net loss	(63.7)%	(31.3)%	(53.1)%

**Table of Contents**

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

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(As a percentage of revenue)</b>		
Cost of revenue	0.3%	0.4%	1.9%
Research and development	10.8	0.9	8.6
Sales and marketing	3.4	1.7	8.4
General and administrative	10.7	3.8	6.4

Prior to our IPO, we granted restricted stock units and certain stock options with both a service condition and a performance condition, or Performance Awards. The service condition for substantially all of the Performance Awards is satisfied over four years. The performance condition was satisfied upon the effectiveness of the registration statement related to our IPO. No share-based compensation expense had been recognized for the Performance Awards prior to our IPO. Upon the satisfaction of the performance condition in May 2014, we recognized a cumulative share-based compensation expense for the portion of the Performance Awards that had met the service condition. For the year ended December 31, 2014, share-based compensation expense related to the Performance Awards was \$12.7 million, including \$0.9 million in cost of revenue, \$7.8 million in research and development, \$2.4 million in sales and marketing, and \$1.6 million in general and administrative expenses, respectively.

In September 2012, in connection with our sale of the Series D redeemable convertible preferred stock, the purchasers of the Series D redeemable convertible preferred stock conducted a tender offer to acquire approximately 4.0 million shares of common stock from employees, former employees, and other existing investors. As a result of this transaction, we recorded a total of \$8.6 million in share-based compensation expense for the difference between the price paid for shares held by our employees and former employee stockholders and the estimated fair market value on the date of the transaction. Of the total share-based compensation expense, we recorded \$20,000, \$3.9 million, \$1.0 million, and \$3.7 million in cost of revenue, research and development, sales and marketing, and general and administrative expenses, respectively.

**Revenue**

	<b>Year Ended December 31,</b>			<b>2012</b>	<b>2013</b>
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>to 2013</b>	<b>to 2014</b>
	<b>(In thousands, except percentages)</b>			<b>% Change</b>	<b>% Change</b>
Revenue	\$ 38,228	\$ 72,045	\$ 127,049	88%	76%

Revenue increased \$33.8 million, or 88%, in 2013 compared to 2012. Of the total increase in revenue, \$13.5 million, or 40%, was attributable to revenue from new accounts acquired from January 1, 2013 through December 31, 2013, net of churn and contraction, and \$20.3 million, or 60%, was attributable to revenue from accounts existing on or before December 31, 2012, net of churn and contraction.

Revenue increased \$55.0 million, or 76%, in 2014 compared to 2013. Of the total increase in revenue, \$23.2 million, or 42%, was attributable to revenue from new accounts acquired from January 1, 2014 through December 31, 2014, net of churn and contraction, and \$31.8 million, or 58%, was attributable to revenue from accounts existing on or



before December 31, 2013, net of churn and contraction.

**Table of Contents**

Revenue from customer accounts that are invoiced in aggregate is treated as being generated from a single customer account. The acquisition date of customer accounts that are invoiced in aggregate is determined using the establishment date of the earliest customer account.

**Cost of Revenue and Gross Margin**

	Year Ended December 31,			2012	2013
	2012	2013	2014	to 2013 % Change	to 2014 % Change
	(In thousands, except percentages)				
Cost of revenue	\$ 13,253	\$ 24,531	\$ 46,047	85%	88%
Gross margin	65.3%	66.0%	63.8%		

Cost of revenue increased \$11.3 million, or 85%, in 2013 compared to 2012. The overall increase was due to increased employee compensation-related costs of \$4.4 million associated with our substantial increase in headcount, increased depreciation expense and other costs associated with our self-managed colocation data centers of \$2.1 million driven by our investments in building out and increasing capacity within our self-managed colocation data centers, and increased hosting fees of \$1.2 million as we increased data center capacity to support our growth. Further contributing to the increase was \$0.9 million in amortization expense associated with capitalized internal-use software, an increase of \$0.4 million in payment processing fees and an increase in allocated shared costs of \$0.9 million.

Our gross margin increased to 66.0% in 2013, as compared to 65.3% in 2012. The increase in gross margin was primarily driven by economies of scale in our operations during the period reflected by our ability to maintain growth in costs of revenue at a level lower than our revenue growth.

Cost of revenue increased \$21.5 million, or 88%, in 2014 compared to 2013. The overall increase was primarily due to increased employee compensation-related costs of \$9.5 million associated with our substantial increase in headcount, the share-based compensation expense related to the Performance Awards described above, increased depreciation expense and other costs associated with our self-managed colocation data centers of \$2.9 million driven by our investments in building out and increasing capacity within our self-managed colocation data centers, and increased amortization expense associated with capitalized internal-use software of \$1.5 million as we continue to develop additional features and functionalities of our platform. Further contributing to the increase was \$1.2 million in hosting fees as we increased data center capacity to support our growth, an increase of \$1.2 million in amortization expense of acquired intangibles in connection with our acquisition of Zopim in the three months ended March 31, 2014, and an increase of \$3.4 million in allocated shared costs primarily due to increased facilities expenses.

Our gross margin decreased to 63.8% in 2014, as compared to 66.0% in 2013. The decrease was primarily due to a 2.6% increase in employee-related compensation costs, driven by increased share-based compensation expense, and a 1.1% increase in allocated shared costs as a percentage of revenue, offset by a 1.7% decrease in hosting fees as a percentage of revenue driven by efficiency realized from our investments in building out our self-managed colocation data centers.

**Operating Expenses****Research and Development Expenses**

	Year Ended December 31,			2012	2013
	2012	2013	2014	to 2013 % Change	to 2014 % Change
Research and development	\$ 14,816	\$ 15,288	\$ 36,403	3%	138%

(In thousands, except percentages)

**Table of Contents**

Research and development expenses increased \$0.5 million, or 3%, in 2013 compared to 2012. The increase was primarily due to an increase of \$3.3 million in employee compensation-related costs, driven by our substantial increase in headcount, and an increase of \$1.2 million in allocated shared costs. The 2013 increase was largely offset by the \$3.9 million charge recorded in connection with the 2012 tender offer described above.

Research and development expenses increased \$21.1 million, or 138%, in 2014 compared to 2013. The increase was primarily due to an increase of \$17.4 million in employee compensation-related costs, driven by our substantial increase in headcount and the share-based compensation expense related to the Performance Awards described above, and an increase of \$2.9 million in allocated shared costs.

**Sales and Marketing Expenses**

	Year Ended December 31,			2012	2013
	2012	2013	2014	to 2013 % Change	to 2014 % Change
	(In thousands, except percentages)				
Sales and marketing	\$ 22,749	\$ 37,622	\$ 77,875	65%	107%

Sales and marketing expenses increased \$14.9 million, or 65%, in 2013 compared to 2012. The overall increase was primarily due to increased employee compensation-related costs of \$9.4 million and increased marketing program costs of \$3.3 million. The 2013 increase in employee compensation-related costs, mainly consisting of salaries, sales commissions, and share-based compensation expense, was driven by the substantial increase in our sales force. The 2013 increase in marketing program costs was primarily driven by increases in online lead generation marketing programs to drive the adoption of our platform. Additionally, allocated shared costs increased \$2.1 million. The 2013 increase was partially offset by the \$1.0 million charge recorded in connection with the 2012 tender offer described above.

Sales and marketing expenses increased \$40.3 million, or 107%, in 2014 compared to 2013. The overall increase was primarily due to increased employee compensation-related costs of \$24.4 million, increased marketing program costs of \$6.8 million, and increased travel expenses of \$1.8 million. The 2014 increase in employee compensation-related costs, mainly consisting of salaries, sales commissions, and share-based compensation expense, was driven by the substantial increase in our sales force, share-based compensation expense related to the Performance Awards described above, and \$4.1 million in additional share-based compensation expense related to the accelerated vesting of certain stock options. The 2014 increase in marketing program costs was primarily driven by increases in online lead generation marketing programs to drive the adoption of our platform. Additionally, allocated shared costs increased \$5.3 million.

**General and Administrative Expenses**

	Year Ended December 31,			2012	2013
	2012	2013	2014	to 2013 % Change	to 2014 % Change
	(In thousands, except percentages)				
General and administrative	\$ 11,558	\$ 16,437	\$ 32,869	42%	100%

General and administrative expenses increased \$4.9 million, or 42%, in 2013 compared to 2012. The increase was primarily due to an increase in employee compensation-related costs of \$7.1 million associated with our substantial increase in headcount and an increase of \$1.6 million in professional and outside services costs, comprised primarily of fees related to legal and accounting services. In addition, in May 2013, we recorded \$1.7 million in share-based compensation expense related to the

**Table of Contents**

accelerated vesting of certain stock options. The 2013 increase was partially offset by the \$3.7 million charge recorded in connection with the 2012 tender offer described above.

General and administrative expenses increased \$16.4 million, or 100%, in 2014 compared to 2013. The increase was primarily due to an increase in employee compensation-related costs of \$10.4 million and an increase in professional and outside services costs of \$2.8 million. The increase in employee compensation-related costs was due to a substantial increase in headcount and share-based compensation expense related to the Performance Awards described above, partially offset by \$1.7 million in share-based compensation expense recorded in 2013 related to the accelerated vesting of certain stock options. The increase in professional and outside services costs was driven by increased level of business activities and increased costs of being a public company. Additionally, allocated shared costs increased \$2.0 million.

**Quarterly Results of Operations**

The following unaudited quarterly results of operations data for each of the eight quarters in the two-year period ended December 31, 2014 have been prepared on a basis consistent with our audited consolidated annual financial statements and include, in management's opinion, all normal recurring adjustments necessary for the fair presentation of the results of operations data for these periods, in accordance with generally accepted accounting principles in the United States. The following quarterly financial data should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this prospectus. The results of historical periods are not necessarily indicative of the results of operations for any future period.

	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Three Months Ended				
				Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014
(In thousands)								
<b>Consolidated Statement of Operations Data:</b>								
Revenue	\$ 13,911	\$ 16,396	\$ 19,237	\$ 22,501	\$ 25,092	\$ 29,506	\$ 33,910	\$ 38,541
Cost of revenue <sup>(1)</sup>	4,870	5,681	6,327	7,653	8,995	11,731	11,684	13,637
Gross profit	9,041	10,715	12,910	14,848	16,097	17,775	22,226	24,904
Operating expenses <sup>(1)</sup> :								
Research and development	3,349	3,528	3,860	4,551	5,178	10,499	9,550	11,176
Sales and marketing	7,995	8,208	10,015	11,404	14,287	20,339	21,548	21,701
General and administrative	2,958	5,140	3,646	4,693	6,384	8,315	8,940	9,230
Total operating expenses	14,302	16,876	17,521	20,648	25,849	39,153	40,038	42,107
Operating loss	(5,261)	(6,161)	(4,611)	(5,800)	(9,752)	(21,378)	(17,812)	(17,203)
Other expense, net	(77)	(133)	(102)	(205)	(458)	(450)	(343)	(282)
Loss before provision for (benefit from) income	(5,338)	(6,294)	(4,713)	(6,005)	(10,210)	(21,828)	(18,155)	(17,485)

taxes

Provision for (benefit from) income taxes	20	58	42	101	49	(85)	(236)	9
---	----	----	----	-----	----	------	-------	---

Net loss \$ (5,358) \$ (6,352) \$ (4,755) \$ (6,106) \$ (10,259) \$ (21,743) \$ (17,919) \$ (17,494)

(1) Share-based compensation expense was allocated as follows:

	<b>Three Months Ended</b>							
	<b>Mar 31, 2013</b>	<b>Jun 30, 2013</b>	<b>Sep 30, 2013</b>	<b>Dec 31, 2013</b>	<b>Mar 31, 2014</b>	<b>Jun 30, 2014</b>	<b>Sep 30, 2014</b>	<b>Dec 31, 2014</b>
	<b>(In thousands)</b>							
Cost of revenue	\$ 39	\$ 61	\$ 77	\$ 77	\$ 90	\$ 1,010	\$ 591	\$ 773
Research and development	71	155	196	213	310	4,168	3,052	3,388
Sales and marketing	159	229	338	484	490	3,268	4,877	2,045
General and administrative	133	2,022	264	336	934	2,537	2,298	2,308

**Table of Contents**

	Three Months Ended							
	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014
(As a percentage of revenue)								
<b>Consolidated Statement of Operations Data:</b>								
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue <sup>(1)</sup>	35.0	34.6	32.9	34.0	35.8	39.8	34.5	35.4
Gross profit	65.0	65.4	67.1	66.0	64.2	60.2	65.5	64.6
Operating expenses <sup>(1)</sup> :								
Research and development	24.1	21.5	20.1	20.2	20.6	35.6	28.2	29.0
Sales and marketing	57.5	50.1	52.1	50.7	56.9	68.9	63.5	56.3
General and administrative	21.3	31.3	19.0	20.9	25.4	28.2	26.4	23.9
Total operating expenses	102.8	102.9	91.1	91.8	103.0	132.7	118.1	109.3
Operating loss	(37.8)	(37.6)	(24.0)	(25.8)	(38.9)	(72.5)	(52.5)	(44.6)
Other expense, net	(0.6)	(0.8)	(0.5)	(0.9)	(1.8)	(1.5)	(1.0)	(0.7)
Loss before provision for (benefit from) income taxes	(38.4)	(38.4)	(24.5)	(26.7)	(40.7)	(74.0)	(53.5)	(45.4)
Provision for (benefit from) income taxes	0.1	0.4	0.2	0.4	0.2	(0.3)	(0.7)	0.0
Net loss	(38.5)%	(38.7)%	(24.7)%	(27.1)%	(40.9)%	(73.7)%	(52.8)%	(45.4)%

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

	Three Months Ended							
	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014
(As a percentage of revenue)								
Cost of revenue	0.3%	0.4%	0.4%	0.3%	0.4%	3.4%	1.7%	2.0%
Research and development	0.5	0.9	1.0	0.9	1.2	14.1	9.0	8.8
Sales and marketing	1.1	1.4	1.8	2.2	2.0	11.1	14.4	5.3
General and administrative	1.0	12.3	1.4	1.5	3.7	8.6	6.8	6.0

**Quarterly Trends in Revenue and Cost of Revenue**



Our quarterly revenue increased sequentially for each period presented, primarily due to sales of new subscriptions to our platform and net expansion by our existing customers. We cannot assure you that this pattern of sequential growth in revenue will continue. In future periods, as our rate of revenue growth declines, seasonality in our revenue may become more apparent.

Our gross margin in the first quarter of any fiscal year is negatively impacted relative to the preceding fourth quarter due to the fewer number of days in the first quarter over which we record subscription revenue as compared to the preceding fourth quarter and the fact that certain expenses in our cost of revenue are not sensitive to the number of days in the quarter.

#### ***Quarterly Trends in Operating Expenses***

Our quarterly operating expenses increased sequentially for each period presented, primarily due to increased compensation-related costs related to an increase in headcount in connection with the expansion of our business. In the three months ended June 30, 2014, we recorded share-based compensation expense of \$6.1 million related to the Performance Awards. Of the total share-based compensation expense, we recorded \$0.6 million in cost of revenue, \$3.2 million in research and development, \$1.3 million in sales and marketing, and \$1.0 million in general and administrative expenses, respectively. In addition, in the three months ended June 30, 2013 and September 30, 2014, we recorded \$1.7 million and \$2.8 million in share-based compensation expense as a

## **Table of Contents**

component of general and administrative and sales and marketing expenses, respectively, related to the accelerated vesting of certain stock awards.

### **Credit Facility**

We have a credit facility with Silicon Valley Bank consisting of a \$20.0 million revolving line of credit and a \$10.0 million equipment line of credit. As of December 31, 2013, the outstanding balance under the revolving line of credit was \$20.0 million. On June 9, 2014, we repaid all outstanding principal and accrued interest under the revolving line of credit and as of December 31, 2014 there was no outstanding balance. As of December 31, 2013 and December 31, 2014, the outstanding balance under the equipment line of credit was \$3.8 million and \$7.0 million, respectively.

Prior to our IPO, borrowings on the revolving line of credit bore interest at the prime rate plus 2.0%. Upon the consummation of our IPO, the interest rate was reduced to the prime rate. Borrowings on the revolving line of credit are subject to a borrowing base limit determined monthly based on our recurring revenue metrics from previous months and the ratio of certain current assets to current liabilities as of the previous month end. To the extent we borrow funds pursuant to the revolving line of credit, we are entitled to make interest-only payments until January 1, 2016, when the outstanding balance is due in full.

Borrowings on the equipment line of credit bear interest of 2.5% per annum. For each equipment advance, we were entitled to make interest-only payments until September 14, 2014, when the last draw against the equipment line of credit could be made. Outstanding balance under the equipment line of credit is payable in 30 equal monthly installments, with the last payment due on March 14, 2017. We are also required to make a final payment fee of \$0.3 million on March 14, 2017.

The credit facility is collateralized by substantially all of our assets, excluding our intellectual property. Our domestic subsidiary is a guarantor of the credit facility and we have pledged up to 65% of the equity in our international subsidiaries as collateral. The credit facility also imposes various covenants on us, including the delivery of financial and other information, the maintenance of our primary operating and securities accounts with the lender, the maintenance of minimum revenue targets and an agreed upon ratio of certain current assets to current liabilities, as well as limitations on dispositions, changes in business or management, certain mergers or consolidations, dividends and other corporate activities. As of December 31, 2013 and December 31, 2014, we were in compliance with all of the covenants contained in the credit facility.

### **Liquidity and Capital Resources**

As of December 31, 2014, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling \$131.7 million, which were held for working capital purposes, as well as the available balance of our credit facility. Our cash equivalents and marketable securities are comprised of corporate bonds, money market funds, asset backed securities, commercial paper, and U.S. treasury securities.

**Table of Contents**

The following table summarizes our cash flows for the periods indicated:

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(In thousands)</b>		
Cash provided by (used in) operating activities	\$ (5,096)	\$ 4,005	\$ 2,090
Cash used in investing activities	(7,119)	(24,186)	(71,297)
Cash provided by financing activities	46,705	25,216	95,768

To date, we have financed our operations primarily through sales of equity securities. From our inception through December 31, 2014, we have received cash proceeds of \$174.4 million from the sale of equity securities, net of issuance costs paid. We have also financed our operations through customer payments for subscription to our customer service platform and live chat software, as well as borrowings under our credit facility. We believe that our existing cash, cash equivalents, and marketable securities balances together with cash generated from operations and the available balance of our credit facility will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months.

Our future capital requirements will depend on many factors including 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, ongoing investments in our platform infrastructure, and the introduction of new and enhanced products, features and functionality. 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.

In March 2014, we completed the acquisition of Zopim. The purchase price of approximately \$15.8 million (\$4.9 million of cash and \$10.9 million of our common stock) included \$1.1 million of cash and \$2.4 million of common stock consideration held back between 12 and 18 months as partial security for standard indemnification obligations and which are payable in the future under terms specified in the stock purchase agreement. In connection with the acquisition of Zopim, we established a retention plan pursuant to which we will pay up to \$13.9 million in cash and equity consideration over two and three years, respectively, to Zopim employees in connection with their continued employment.

Prior to the expiration of the lock-up agreements in connection with our IPO, we had elected to net share settle our restricted stock units by withholding shares and remitting income tax on behalf of the applicable employees. During the year ended December 31, 2014, cash used for tax payments related to net share settlement of restricted stock units was \$2.1 million. Upon the expiration of the lock-up agreements in November 2014, we generally began requiring that employees sell a portion of the shares that they receive upon the vesting of restricted stock units in order to cover any required withholding taxes (sell-to-cover). We expect this sell-to-cover approach will reduce our cash outflows.

**Operating Activities**

Our largest source of operating cash inflows is cash collections from our customers for subscription services. Our primary uses of cash from operating activities are for employee-related expenditures, leased facilities, and hosting fees.

Net cash used in operating activities in 2012 was \$5.1 million, reflecting our net loss of \$24.4 million, adjusted by non-cash charges including share-based compensation expense of

---

**Table of Contents**

\$9.6 million and depreciation and amortization of \$2.5 million, and changes in our working capital. The changes in our working capital were primarily attributable to an increase in deferred revenue of \$7.7 million due to the growth of our subscription services, an increase in accrued compensation liabilities of \$1.6 million, primarily due to increased headcount, and an increase in accounts payable and accrued liabilities of \$1.1 million due to increased accrual for taxes and timing of payments. These sources of cash flow were partially offset by an increase in prepaid expenses of \$1.6 million primarily due to retention-related compensation, which were amortized as compensation expense over the required service period and an increase in accounts receivable of \$1.4 million due to higher customer billings related to the increase in subscription services during the period.

Net cash provided by operating activities in 2013 was \$4.0 million, reflecting our net loss of \$22.6 million, adjusted by non-cash charges including depreciation and amortization of \$5.2 million, share-based compensation expense of \$4.9 million, and changes in our working capital. The changes in our working capital were primarily attributable to an increase in deferred revenue of \$13.9 million due to the growth of our subscription services, an increase in accounts payable and accrued liabilities of \$4.1 million due to timing of payments and a higher level of expenses consistent with the overall growth of our business, and an increase in accrued compensation liabilities of \$2.0 million primarily due to a significant increase in headcount. These sources of cash flow were partially offset by an increase in accounts receivable of \$3.6 million due to higher customer billings related to the increase in subscription services during the period and an increase in prepaid expenses and other current assets of \$0.3 million primarily due to increases in prepaid rent.

Net cash provided by operating activities in 2014 was \$2.1 million, reflecting our net loss of \$67.4 million, adjusted by non-cash charges including share-based compensation expense of \$32.1 million, depreciation and amortization of \$11.5 million, and changes in our working capital. The changes in our working capital were primarily attributable to an increase in deferred revenue of \$22.4 million due to the growth of our subscription services, an increase in accrued compensation liabilities of \$5.8 million primarily due to a significant increase in headcount and timing of payments, an increase in other assets and liabilities of \$1.7 million due to increased deferred rent, and an increase in accounts payable and accrued liabilities of \$1.3 million due to timing of payments and a higher level of expenses consistent with the overall growth of our business. These sources of cash flow were partially offset by an increase in accounts receivable of \$3.8 million due to higher customer billings related to the increase in subscription services during the period and an increase in prepaid expenses and other current assets of \$1.4 million primarily due to increases in prepaid subscriptions of business software.

***Investing Activities***

Net cash used in investing activities in 2012 of \$7.1 million was primarily attributable to purchases of property and equipment of \$3.6 million to accommodate headcount growth and to build out our self-managed colocation data centers, and capitalized internal-use software costs of \$3.5 million associated with an upgrade of our platform introduced in the third quarter of 2012 and the development of additional features and functionality.

Net cash used in investing activities in 2013 of \$24.2 million was primarily attributable to purchases of marketable securities of \$12.4 million, purchases of property and equipment of \$7.1 million primarily associated with hosting equipment to build out our self-managed colocation data centers, and capitalized internal-use software costs of \$4.7 million associated with the development of additional features and functionality of our platform.

Net cash used in investing activities in 2014 of \$71.3 million was primarily attributable to purchases of marketable securities of \$54.3 million, purchases of property and equipment of \$21.7 million primarily associated with leasehold improvements related to our new offices and hosting



**Table of Contents**

equipment, capitalized internal-use software costs of \$8.0 million associated with the development of additional features and functionality of our platform, and payments of \$1.9 million for the acquisition of Zopim, net of cash acquired. The use of cash in investing activities was partially offset by the sale and maturities of marketable securities of \$14.5 million.

***Financing Activities***

During 2012, cash provided by financing activities of \$46.7 million was primarily attributable to net proceeds from issuance of our Series D redeemable convertible preferred stock of \$44.9 million and proceeds from exercise of stock options of \$2.1 million, partially offset by principal payments on capital lease obligations of \$0.3 million.

During 2013, cash provided by financing activities of \$25.2 million was primarily attributable to proceeds from borrowings under our credit facility of \$23.8 million and proceeds from exercise of stock options of \$1.8 million, partially offset by principal payments on capital lease obligations of \$0.3 million.

During 2014, cash provided by financing activities of \$95.8 million was primarily attributable to net proceeds from our IPO of \$103.1 million, proceeds from the issuance of common stock associated with our employee equity plans of \$11.6 million, and borrowings under our credit facility of \$3.9 million. Cash provided by financing activities was partially offset by principal payments on our credit facility of \$20.7 million and payments for withholding taxes related to the net share settlement of restricted stock units of \$2.1 million.

**Contractual Obligations and Other Commitments**

Our principal commitments consist of obligations under our operating leases for office space, contractual commitments for services related to our colocation data centers and other support services, and our credit facility. The following table summarizes our contractual obligations as of December 31, 2014 (in thousands):

	Payments Due by Period				Total
	Less than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years	
<b>Contractual Obligations:</b>					
Debt obligations	\$ 3,041	\$ 3,911	\$	\$	\$ 6,952
Operating lease obligations	7,025	14,002	13,608	12,707	47,342
Purchase obligations	2,252	2,137			4,389
<b>Total contractual obligations</b>	<b>\$ 12,318</b>	<b>\$ 20,050</b>	<b>\$ 13,608</b>	<b>\$ 12,707</b>	<b>\$ 58,683</b>

**Off-Balance Sheet Arrangements**

Through December 31, 2014, 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.

**Quantitative and Qualitative Disclosures about Market Risk**

***Foreign Currency Exchange Risk***

We conduct transactions, particularly intercompany transactions, in foreign currencies, primarily the British Pound Sterling, Euro, Australian Dollar, Danish Krone, Singapore Dollar, Japanese Yen,



## **Table of Contents**

Philippine Peso, and Brazilian Real. Except for our Singapore subsidiary, our international subsidiaries maintain certain current asset and current liability balances that are denominated in currencies other than the functional currencies of these entities, which is the U.S. dollar. Our Singapore subsidiary's functional currency is the Singapore Dollar. Changes in the value of foreign currencies relative to the U.S. dollar can affect our revenue, operating expenses, and other expenses as expressed in the U.S. dollar. While we have primarily transacted with customers in the U.S. dollar, we have also historically transacted in foreign currencies for subscriptions to our customer service platform and expect to significantly expand the number of transactions with customers that are denominated in foreign currencies in the near future.

Foreign currency gains and losses were not significant for the years ended December 31, 2012, 2013, and 2014. While we have not engaged in hedging of our foreign currency transactions to date, we are currently evaluating the costs and benefits of initiating such a program and may, in the future, hedge selected significant transactions denominated in currencies other than the U.S. dollar.

### ***Interest Rate Sensitivity***

We had cash, cash equivalents, and marketable securities totaling \$131.7 million at December 31, 2014, of which \$72.8 million was invested in corporate bonds, money market funds, asset-backed securities, commercial paper, and U.S. treasury securities. The cash and cash equivalents are held for working capital 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 December 31, 2014, we do not believe that an increase or decrease in interest rates of ten percent (10%) would have a material effect on the value of our cash equivalents and portfolio of marketable securities. Fluctuations in the value of our cash equivalents and portfolio of marketable securities caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities prior to maturity.

## **Critical Accounting Policies and Estimates**

We prepare our consolidated financial statements in accordance with GAAP. In the preparation of these 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, which we discuss below.

### ***Revenue Recognition***

We generate substantially all of our revenue from subscription services, which are comprised of subscription fees from customer accounts on our customer service platform and, to a lesser extent, live

## **Table of Contents**

chat software. Arrangements with customers do not provide the customer with the right to take possession of the software supporting our customer service platform or live chat software at any time, and are therefore accounted for as service contracts. Subscription service arrangements are generally non-cancelable and do not provide for refunds to customers in the event of cancellations or any other right of return. We record revenue net of sales or excise taxes.

We commence revenue recognition when all of the following conditions are met:

There is persuasive evidence of an arrangement;

The service has been or is being provided to the customer;

The collection of the fees is reasonably assured; and

The amount of fees to be paid by the customer is fixed or determinable.

Subscription revenue is recognized on a straight-line basis over the contractual term of the arrangement beginning on the date that our service is made available to the customer. Payments received in advance of services being rendered are recorded as deferred revenue and recognized on a straight-line basis over the requisite service period.

Certain customers have arrangements that provide for a maximum number of users over the contract term, with usage measured monthly. Revenue for these arrangements is recognized ratably over the contract terms. Incremental fees are incurred when the maximum number of users is exceeded, and any incremental fees are recognized as revenue ratably over the remaining contractual term.

We derive an immaterial amount of revenue from implementation, voice, and training services, for which we recognize revenue upon completion.

### ***Capitalized Internal-Use Software Costs***

We capitalize certain development costs incurred in connection with software development for our platform and software used in operations. Costs incurred in the preliminary stages of development are expensed as incurred. Once software has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs are recorded as part of property and equipment. Maintenance and training costs are expensed as incurred.

Capitalized internal-use software is amortized on a straight-line basis over its estimated useful life and recorded in cost of revenue within the accompanying consolidated statements of operations. The weighted-average useful life of our capitalized internal-use software was 3.2 years as of December 31, 2014. We evaluate the useful lives of these assets and test for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. There were no impairments to internal-use software during the years ended December 31, 2012, 2013 and 2014.

***Business Combination and Valuation of Goodwill and Purchased Intangible Assets***

When we acquire a business, we allocate the purchase price to the net tangible and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates

---

**Table of Contents**

can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable.

Goodwill is evaluated for impairment annually in the third quarter, and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate or a significant decrease in expected cash flows.

Purchased intangible assets consist of identifiable intangible assets, primarily developed technology and customer relationships, resulting from our acquisition of Zopim. Purchased intangible assets are recorded at fair value on the date of acquisition and amortized over their estimated useful lives following the pattern in which the economic benefits of the assets will be consumed, generally straight-line. The carrying amounts of our purchased intangible assets are periodically reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than originally estimated.

***Share-Based Compensation***

Share-based compensation expense to employees is measured based on the fair value of the awards on the grant date and recognized in our consolidated statements of operations over the period during which the employee is required to perform services in exchange for the award (generally the vesting period of the award). We estimate the fair value of stock options granted using the Black-Scholes option valuation model. We measure the fair value of restricted stock units based on the fair value of the underlying shares on the date of grant. Compensation expense for awards with only service conditions is recognized over the vesting period of the applicable award using the straight-line method.

Prior to our IPO, we granted Performance Awards to our employees that vested upon the satisfaction of both a service condition, generally over four years, and a performance condition. The performance condition, defined as a qualifying liquidation event, was satisfied upon the effectiveness of the registration statement related to our IPO. No share-based compensation expense had been recognized for the Performance Awards prior to our IPO as such qualifying liquidation event was not deemed probable until that time. Upon the satisfaction of the performance condition, we recognized a cumulative share-based compensation expense for the portion of the Performance Awards that had met the service condition. For the year ended December 31, 2014, share-based compensation expense related to the Performance Awards was \$12.7 million, using the accelerated attribution method. The remaining unrecognized share-based compensation expense related to the Performance Awards will be recorded over the remaining requisite service period using the accelerated attribution method, net of estimated forfeitures.

We estimate the fair value of stock options granted using the Black-Scholes option valuation model, which requires assumptions, including the fair value of our underlying common stock, expected term, expected volatility, risk-free interest rate and dividend yield of our common stock. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our share-based compensation expense could be materially different in the future.

These assumptions are estimated as follows:

*Fair Value of Common Stock.* Prior to our IPO in May 2014, our board of directors, with input from management, exercised significant judgment and considered numerous objective and subjective factors to

determine the fair value of our common stock as of the date of each option

**Table of Contents**

grant. These factors included, but were not limited to: (A) contemporaneous valuations performed by unrelated third-party specialists, (B) rights, preferences, and privileges of our redeemable convertible preferred stock relative to those of our common stock, (C) actual operating and financial performance, (D) relevant precedent transactions involving our capital stock, (E) likelihood of achieving a liquidity event, such as an initial public offering or a sale of our company given prevailing market conditions and the nature and history of our business, (F) market multiples of comparable companies in our industry, (G) stage of development, (H) industry information such as market size and growth, (I) illiquidity of share-based awards involving securities in a private company, and (J) macroeconomic conditions.

Since our IPO, we have used the market closing price for our common stock as reported on the NYSE.

*Expected Term.* We determine the expected term based on the average period the stock options are expected to remain outstanding generally calculated as the midpoint of the stock options vesting term and contractual expiration period, as we do not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior.

*Expected Volatility.* We determine the price volatility factor based on the historical volatility of publicly traded industry peers. To determine our peer group of companies, we consider public companies in the technology industry and select those that are similar to us in size, stage of life cycle, and financial leverage. We do not rely on implied volatilities of traded options in our industry peers' common stock because the volume of activity is relatively low. We intend to continue to consistently apply this methodology using the same or similar public companies until sufficient historical information regarding the volatility of our own common stock price becomes available, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.

*Risk-Free Interest Rate.* We base the risk-free interest rate used in the Black-Scholes valuation model on the yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term of the stock options for each stock option group.

*Dividend Yield.* We have not paid and do not anticipate paying any cash dividends in the foreseeable future and, therefore, use an expected dividend yield of zero.

The following table summarizes the assumptions, other than fair value of our common stock, relating to our stock options granted in the years ended December 31, 2012, 2013, and 2014:

	Year Ended December 31,		
	2012	2013	2014
Expected volatility	57% - 59%	50% - 63%	54% - 56%
Dividend rate	0%	0%	0%
Risk-free interest rate	0.68% - 1.47%	0.63% - 2.02%	1.75% - 2.02%
Expected term (in years)	5.28 - 6.27	4.47 - 6.27	6.02 - 6.50

In addition to the assumptions used in the Black-Scholes option valuation model, we must also estimate a forfeiture rate to calculate the share-based compensation expense for our awards. Our forfeiture rate is based on an analysis of our actual forfeitures. We will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover, and other factors. Changes in the estimated forfeiture rate can have a significant impact on our share-based compensation expense as the cumulative effect of adjusting the rate is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the share-based



## **Table of Contents**

compensation expense recognized in our financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the share-based compensation expense recognized in our financial statements.

We will continue to use judgment in evaluating the expected volatility, expected term, and forfeiture rate utilized in our share-based compensation expense calculations on a prospective basis. As we continue to accumulate additional data related to our common stock, we may refine our estimates of expected volatility, expected term, and forfeiture rates, which could materially impact our future share-based compensation expense.

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

In July 2013, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2013-11 *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, or ASU 2013-11, which provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss, or NOL, carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 supports the approach for companies to present an unrecognized tax benefit as a reduction of a deferred tax asset for a NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This approach requires companies to assess whether to net the unrecognized tax benefit with a deferred tax asset as of the reporting date. We adopted this standard for the year ended December 31, 2014, and the adoption did not have a material effect on our financial position, results of operations, or cash flows.

On May 28, 2014, the FASB issued ASU 2014-09 regarding ASC Topic 606 *Revenue from Contracts with Customers*. This ASU provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU will be effective for our fiscal year beginning January 1, 2017. Early adoption is not permitted. We are currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

Under the JOBS Act, we meet the definition of an emerging growth company. We have irrevocably elected to opt out of the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act.

**Table of Contents**

**BUSINESS**

**Overview**

Zendesk believes the fundamental relationship between organizations and their customers is changing. As consumers, we have more choices, have access to more information, and are more connected than ever before. We expect to be heard, engaged, and valued by the organizations we interact with. At the same time, organizations are increasingly recognizing the value of these deeper relationships. As a result, a new customer service philosophy is emerging.

Zendesk was formed to help organizations capitalize on this profound shift. We are a software development company that provides a SaaS customer service platform. Our beautifully simple platform helps organizations engage with people in new ways that foster long-term customer loyalty and satisfaction. We empower organizations to better answer customers' questions, and to solve their problems through the channels that people use every day when seeking help, such as email, chat, voice, social media, and websites. Our platform also helps people find answers on their own through knowledge bases and communities, capitalizing on the increasing customer preference for self-service. Our customer engagement capabilities allow organizations to proactively serve their customers, reaching out to those who may need help and soliciting feedback about their experience. The openness of our customer service platform makes it easy for organizations to integrate with other applications and embed our platform's functionality natively into their own websites and mobile applications. Our platform consolidates the data from customer interactions and provides organizations with powerful analytics and performance benchmarking.

In March 2014, we completed the acquisition of Zopim, a software development company that provides a SaaS live chat service. Through Zopim, we provide live chat software as a standalone service and as an integrated service with our customer service platform for chat-enabled agents.

Our business model is designed to drive organic growth, leverage positive word-of-mouth, and remove friction from the evaluation and purchasing process. A substantial percentage of our customers find us online and subscribe to our customer service platform directly from our website. Exemplifying the success of our sales and marketing strategy, during the three months ended December 31, 2014, approximately 64% of our qualified sales leads generated online, and approximately 62% of the total qualified sales leads for our customer service platform, came from organic search, customer referrals, and other unpaid sources. Our largest source of qualified sales leads is free trials of our customer service platform commenced by prospects. Our sales team largely focuses on a land and expand strategy, which leverages this grassroots adoption and seeks to expand our footprint within organizations.

As of December 31, 2014, we had approximately 52,500 paid customer accounts for our customer service platform and live chat software in the aggregate. This includes approximately 27,600 customer accounts for paid subscription plans on our customer service platform, excluding our low-cost Starter plan, and approximately 24,900 customer accounts for paid subscription plans of our live chat software. We also offer freemium plans for our customer service platform and live chat software, as well as email collaboration software, that are offered free of charge or at very low cost. As of December 31, 2014, we had more than 98,000 active accounts using these services. Our customers represent organizations across a broad array of sizes, industries, and geographies. They are located in 150 countries and territories and provide service through our customer service platform in over 40 languages.

Our financial performance reflects our significant customer growth and strong customer retention and expansion. For the years ended December 31, 2012, 2013, and 2014, our revenue was \$38.2 million, \$72.0 million, and \$127.0 million, respectively, representing an 88% annual growth rate.



## **Table of Contents**

from 2012 to 2013 and a 76% annual growth rate from 2013 to 2014. For the years ended December 31, 2012, 2013, and 2014 we derived \$15.8 million, or 41%, \$29.6 million, or 41%, and \$54.8 million, or 43%, respectively, of our revenue from customers located outside of the United States.

## **Industry Background**

### ***Customer Relationships Are Changing***

The relationship between organizations and their customers is changing rapidly. As consumers, we experience these changes in our everyday lives. Over the last several years, the ways in which people research, purchase from, and communicate with organizations have evolved from a relatively simple set of interactions into a rapidly expanding network of information and communications. The result is people who are better informed about the products and services they buy; have more choices and potentially less loyalty; and can influence many others with their opinions. People have higher expectations about how an organization will relate to them and less patience for organizations that do not meet these expectations. These expectations are not limited to the business-to-consumer relationship. The customer relationship is increasingly found anywhere an organization wants to maintain a connection with a set of individuals, including business-to-business, business-to-employee, government-to-citizen, and non-profit-to-benefactor realms.

### ***Organizations Must Evolve Their Approach to Customer Service***

We believe organizations build successful long-term customer relationships as people do elsewhere in life, with transparent communication, an ability to listen to and incorporate feedback, and a genuine interest in providing a satisfying experience. On a logistical level, an organization must learn to communicate consistently and contextually with customers across multiple channels, including email, chat, voice, social media, and other emerging means of communication. They also need to enable customers to resolve their problems when, where, and how they want, whether by interacting with an agent or through self-service. But perhaps more importantly, because people are more knowledgeable and vocal than ever, an organization must approach the customer experience in a more thoughtful way. Successful customer service is no longer just about handling customer complaints and questions. Instead, it requires that organizations understand and interact with customers as people. Organizations must listen to people when they are speaking and engage with them using empathy, personality, and transparency.

### ***The Opportunity to Build Relationships Through Customer Service***

The transformation to a customer-driven economy creates tremendous opportunities for organizations of all sizes that make customer service a critical focus of their operations. We believe that many successful organizations today exemplify this new approach. Whether it is an online brand that removes barriers to completing online purchases or a new entrant that innovates an industry's customer communication methods, organizations are discovering that a deep understanding of the customer experience can be the foundation for building highly valuable customer relationships.

### ***Failing to Adapt to This New Landscape Puts Organizations at Risk***

While opportunities abound for organizations that recognize and capitalize on the customer-driven economy, the penalties for failing to evolve to this changing landscape can be severe. That is because there is an entirely new level of communication by and among people. While word-of-mouth and user opinions have always been a force in brand marketing, they now exist on a massive scale with much more efficiency and greater impact. Acting as brand advocates or adversaries, individuals can influence peers' opinions and purchasing behavior. Their voices are amplified through popular community-based ways to research products ranging from social networks, including Facebook,



## **Table of Contents**

Twitter, and Google+, to user-generated reviews, including Yelp, TripAdvisor, and Angie's List. Today's customers can communicate happiness or displeasure instantaneously, exerting strong influence on brands.

Organizations that continue with the traditional uncoordinated, uninformed, and reactive approach to customer service risk customer frustration and lost business. In a 2013 survey of approximately 13,000 consumers by Accenture plc, a consulting firm, 74% complained about having to contact an organization's customer support multiple times for an answer and 66% complained about having to repeat the same information to multiple agents or through multiple channels. Furthermore, over 80% of these survey respondents said an organization could have retained their business with more effective customer service such as quick resolution and proactive engagement.

### ***Legacy Customer Support Software Was Built for a Different Era***

We believe organizations are increasingly aware of changing customer expectations and are looking for technology to help them address the opportunities and challenges this presents. Various software tools, delivered both on-premise and in the cloud, have attempted to address the difficult nature of customer support for many years. Unfortunately, this legacy customer support software was largely designed to solve discrete service problems and to minimize the cost of support, instead of fostering customer loyalty and successful long-term relationships. This presents challenges for organizations of all sizes.

Legacy customer support software is costly and complex, causing the vast majority of SMBs to rely primarily on tools like email, phones, and spreadsheets. Even larger organizations able to afford customer support software often adopt a piecemeal approach with the goal of minimizing support costs. The result is the inability to support multiple channels or expand to new channels, ultimately leading to customer frustration. This siloed approach reflects a view of support as a necessary burden rather than an opportunity to build customer loyalty.

Legacy customer support software also limits employees' effectiveness in responding to customer inquiries and offers few, if any, analytics, recommendations, or performance benchmarks. Just as the expectations of the consumer have evolved, so too have the expectations of employees. Familiar with consumer web software like Facebook, Twitter, and Gmail, employees desire tools with similar ease-of-use and sophistication. Most enterprise software, particularly customer support software, has not progressed to embrace consumer design tactics including optimized user experience, availability on personal devices, and ease-of-deployment.

### ***New Solutions Are Needed for the Customer-Driven Economy***

Due to the emphasis on customer service in the new customer-driven economy, having the right technology is more important than ever and there are few options to effectively address that need. We believe that effective customer service requires a purpose-built platform that embraces the new landscape of omni-channel communication and the empowered and informed customer, and places an emphasis on well-designed experiences.

This is what Zendesk does. This is what Zendesk cares about.

## **Market Opportunity**

We believe a new and expansive market opportunity exists for technology like our customer service platform that helps organizations navigate the new customer-driven economy and harness its power. With its simplicity, flexibility, scalability, and affordability, our customer service platform can be used by organizations of all sizes. Compared to legacy customer support software, our customer service platform coordinates more extensive customer conversations across more channels, informed



## Table of Contents

by all prior interactions, and integrated with other business applications through robust open APIs. The well-designed user experience as well as the ability to painlessly start and expand their platform usage appeal to SMBs and large enterprises alike.

We believe, as a result, our market opportunity is a substantially larger and faster growing opportunity than the already sizable legacy customer support software market. According to IDC, in 2013, the worldwide CRM software market comprised \$22.8 billion. Our customer service platform primarily addresses the customer service and contact center segments which comprised a total of \$10.5 billion in 2013 worldwide. In addition, IDC has estimated that between 2012 and 2017, SaaS solutions in the overall CRM applications market will grow over ten times faster than legacy on-premise solutions.

In a 2013 report, IDC estimated that there were approximately 76 million SMBs worldwide. We believe that many of these organizations have not been able to implement or afford legacy customer support software and therefore represent a substantial greenfield market opportunity for our customer service platform.

### **Legacy Customer Support Software**

Legacy customer support software suffers from a number of design and technical limitations that make it particularly inefficient at addressing the new and evolving customer-driven economy.

**Cumbersome and Complex.** Legacy software was not designed with the employee and, ultimately, the customer experience in mind. Interfaces are overly complex, inflexible, and difficult to learn and use. The result is cumbersome software that adds obstacles between agents and customers rather than removing them. Customers often suffer long wait times, must repeat themselves, and do not receive the help they need while organizations lose valuable opportunities to increase customer loyalty, upsell additional products, and gather customer feedback.

**Disconnected.** Organizations have often implemented separate inbound and outbound voice response software in their call centers, then added software point solutions for emerging channels, such as email, chat, and social media, that are poorly integrated with existing solutions. Without functionality to seamlessly engage people across channels and departments, use of legacy software results in uncoordinated customer service efforts and frustrated customers. While many customer inquiries potentially require and could definitely benefit from expertise throughout the organization, such as engineering, product, sales and billing, first line of defense agents are the only ones equipped with the software tools to respond. In addition, customer service representatives are often restricted to supporting customers through a single channel even when other channels would be preferred by the customer and less costly for the organization. This leads to agents who are ill-equipped to adequately address customer concerns and results in customer service that is often disorganized, slow, generic, and unhelpful. Moreover, agents and managers have few tools to organize support efforts, track performance, and inform other employees about recent customer questions or concerns.

**Expensive.** An organization's need for multiple legacy software products to provide multi-channel customer service drives a high total cost of ownership. The required consultants for installation, customization, and training further increase the upfront and ongoing costs. We believe the limited functionality of legacy software and especially basic tools also increases the cost to provide customer service and results in a low



return on investment because employees are less efficient and effective with their time.

## Table of Contents

**Legacy Architecture.** Legacy software is often as difficult to update or upgrade as it was to initially install due to lengthy consultant-led integrations and complex deployment requirements. As a result, organizations often avoid software changes because they are expensive, time consuming, and frequently require retraining agents. Focused on providing customer support on desktop computers, legacy software also has limited or no mobile functionality and is not designed for bring your own device environments.

### **The Zendesk Approach**

Zendesk's mission is to help organizations and their customers build better relationships. Our comprehensive customer service platform is carefully designed for organizations to address the new customer-driven economy, in which customer service is a key business principle. Our intuitive customer service platform facilitates listening to the customer, finding the best possible answer, communicating through the appropriate channel, and sharing the knowledge gained with the whole organization.

**Beautifully Simple.** We have an overarching philosophy to be beautifully simple. This approach begins with the look and feel of our customer service platform. We take intuitive design elements that people have grown to expect from consumer software and incorporate them into our customer service platform. The complexity of our underlying technology is wrapped in an easy-to-use interface built to simplify the tough work of customer service. However, beautifully simple at Zendesk extends far beyond that. We offer a free trial and a transparent purchase process with numerous self-service options that are suitable for SMBs and enterprise departments as well as assisted options for larger clients. Once purchased, our customer service platform provides fast results due to an easy set-up with a detailed tutorial and we assist organizations with questions or concerns through our product support team, community forum, and other software tools.

**Omni-Channel and Contextual.** Our customer service platform is built to support customers across a wide variety of integrated channels—email, voice, social media, and websites. We offer live chat as a standalone service and as a means to integrate chat-enabled agents into our customer service platform. With little to no setup, our customer service platform can receive, manage, track, and report on customer interactions regardless of where they occur. This enables employees to listen to and engage with customers through the appropriate channels. In addition, our customer service platform provides important contextual information around customer issues by encouraging employee collaboration and enabling real-time information sharing. Based on our belief that the best customer service involves a whole organization, our customer service platform makes it easy for multiple departments to work together on as well as stay informed about customer interactions.

**Affordable.** We believe that customer service practices and philosophy affect the bottom line and that by using our customer service platform organizations can successfully manage customer service in a manner that generates a high return on investment. We believe our subscription plans are significantly less expensive and offer greater pricing transparency than many legacy customer support software applications (especially when software updates, ongoing maintenance and consultant fees required for integration, installation, customization, and training are taken into account). Furthermore, our customer service platform is designed to increase productivity by enabling faster responses, customer self-service tools, and automation.

**Natively Mobile.** Mobile apps were not an afterthought at Zendesk. We have designed our customer service platform to enable great customer service on-the-go. Through native mobile apps, employees can access our customer service platform anywhere with robust product functionality, an elegant interface, and performance analytics. Our help centers are mobile optimized, allowing people to quickly find answers on their own with mobile devices.

## Table of Contents

**Cloud-Based Architecture.** The dynamic cloud-based architecture that powers our customer service platform allows SMBs and large enterprises alike to invest their time and energy in their customers rather than managing their software. This architecture automates frequent software updates and introduction of new features while also allowing our platform to easily scale within organizations. Configurations made with simple tools, including workflow automations and best practice templates, tailor the functionality and design of our customer service platform to an organization's particular needs and keep customer service efforts of any size organized.

**Open Platform.** Integrations openly exchange information and product functionality between our customer service platform and other applications, leading to better informed customer conversations. Our platform includes over 270 pre-built integrations with CRM, e-commerce, telephony, live chat, and other apps, which are enabled through our app marketplace. Developed with our open APIs, our platform can also be customized, integrated, or expanded upon with private apps. Through Zendesk Embeddables, we enable customers to simply and natively integrate critical functionality directly into their own websites and applications, including optimized integrations for mobile applications.

**Proactive Engagement.** Our customer service platform is designed to provide customer service on the customer's terms. Organizations are equipped to proactively communicate with customers at the most relevant and critical moments. For example, organizations can automatically trigger workflow to proactively reach out to customers that may signal they have had a bad experience or need particular attention.

**Strategic Analytics.** Our customer service platform provides analytics that are mission critical for an organization's operations. In all subscription plans for our customer service platform, managers have access to real-time operational efficiency and customer satisfaction analytics at the interaction, agent, and organizational level. We continuously collect anonymized data, through the Zendesk Benchmark, to regularly report relevant comparisons of an organization's metrics relative to its peers based on size, industry, and geographic region. Managers can be informed through our customer service platform on the strengths and weaknesses of their customer service efforts on an hourly basis, as well as provided with recommendations of how to improve performance.

### **Benefits of the Zendesk Approach**

**Benefits to Customers.** Through our platform, customer service focuses on people, making it convenient for them to seek help. Information is available where and when they would look. Background information does not need to be repeated nor requests endlessly passed from agent to agent. Peoples' needs can even be anticipated and preemptively addressed by organizations proactively reaching out.

**Benefits to Employees.** By making it easy to connect with customers and provide knowledgeable responses, our customer service platform empowers employees and improves overall job satisfaction. As the look and feel of our interface matches consumer apps, it is easy for them to learn and navigate. Well-designed features, including automated tasks, save employees time and mobile apps facilitate working outside of the office.

**Benefits to Organizations.** Our customer service platform creates a strong foundation for customer-focused organizations by managing all of their communication across channels and establishing a centralized source of customer information. Organizations benefit from feedback that can be broadly shared to drive continuous improvement guided by performance metrics. Through the use of our customer service platform, we believe organizations can successfully build their brand, influence strong customer advocates, and, ultimately, enhance their financial performance.

**Table of Contents**

**Growth Strategy**

Zendesk was founded in 2007, aiming to help organizations build successful long-term relationships with their customers. We strive to continue the work our three founders began when they looked at the state of customer service and said: we can do better. We are focused on the following key areas of growth:

**Introducing New Products and Broadening Our Platform Functionality.** We are continuously investing in building a customer service platform that elegantly facilitates and improves customer service and ultimately creates successful long-term customer relationships. Significant research and development efforts are currently focused on broadening our existing customer engagement and communication tools. We intend to continue to develop new products and functionality to expand our platform and support that mission. In addition, we may selectively pursue acquisition opportunities of technologies that can broaden the functionality of our platform.

**Furthering Our Data-Driven Approach.** We believe our platform is unique for empowering a data-driven approach to customer service. For example, we have introduced the Zendesk Benchmark to enable organizations to compare their critical customer service performance metrics with their peers. Through Zendesk Insights, organizations can compute and display advanced analytics based on their raw data. We plan to expand our data analysis and reporting tools.

**Maintaining Leadership in SMB Market.** Our customer base today includes a large number of SMBs across industries and geographies. Our customer service platform's ease-of-use, fast results, and flexible pricing are well suited for their needs. We will continue to expand sales in existing organizations, target new organizations, and advance our leadership position in the SMB market.

**Expanding Our Enterprise Customer Base.** Larger enterprises make up an increasing portion of our customer base. As of December 31, 2014, the percentage of our monthly recurring revenue for our customer service platform generated by customers with 100 or more agents on our customer service platform was 24% as compared to 20% as of December 31, 2013. Our enterprise sales strategy is focused on land and expand, in which we sell our customer service platform into a single department or location and grow by adding agents in other departments, product divisions, and geographies. In addition to increasing the number of users, our customers often upgrade to our more expensive and feature rich subscription plans. We expect our recent sales initiatives to increase sales to new larger enterprises as well as increase our penetration in existing customers through expansion and subscription plan upgrades.

**Continuing to Increase Our Global Customer Footprint.** With customers in 150 countries and territories, we serve a global market. As of December 31, 2012, 2013, and 2014, we generated 41%, 41%, and 43%, respectively, of our revenue outside of the United States. Our international sales efforts will be focused on certain countries outside of the United States, including Brazil, France, Germany, Japan, and the United Kingdom, where we have demonstrated significant organic customer traction or believe represent particularly strategic opportunities.

**Broaden Our Integrations and Partnerships.** Our customer service platform is deep and extendible, with over 270 applications integrated with our software, and a network of partner and third-party developers building additional applications which integrate with and embed our platform's functionality. We actively seek out third party developers to build applications on our platform and as of February 2015 had over 2,500 registered developers on our platform developer portal. By growing this Zendesk ecosystem, we plan to build on relationships with

**Table of Contents**

third-party organizations and developers who further extend our customer service platform into new customers and use cases.

**Developing Our Brand.** We are focused on strengthening our reputation as a differentiated and category-defining company in customer service. Our brand attributes airy, humble, charming, and uncomplicated distinguish us from the traditional attitudes about organizations and the customer relationship. Our marketing emphasizes our customer service platform's ease-of-use and unique aesthetic in a voice that we believe is memorable and fun (especially relative to legacy enterprise software). We currently host user-groups across the country, and regularly create other opportunities and events to bring together the best in the business to discuss and network. We also regularly publish content with advice for organizations of all sizes about becoming more customer-focused and effectively managing customer service. We believe these branding efforts and thought leadership have accelerated our growth to date and will fuel our future growth by driving organic leads.

**Customers**

As of December 31, 2014, we had approximately 52,500 paid customer accounts for our customer service platform and live chat software in the aggregate. This includes approximately 27,600 customer accounts for paid subscription plans on our customer service platform, excluding our low-cost Starter plan, and approximately 24,900 customer accounts for paid subscription plans of our live chat software.

Our freemium plans include the Starter plan for our customer service platform, our Lite plan for live chat software, and our Zendesk Inbox service for facilitating and simplifying email collaboration on group email aliases. We believe these services provide exposure to our brand and establish a relationship that can facilitate further adoption of our customer service platform and live chat software as organizations grow in size and their service needs grow more complex. As of December 31, 2014, we had more than 98,000 active customer accounts on our freemium plans. A customer account on our freemium plans is considered active based on whether functionality of the service has been utilized within the 90-day period preceding the measurement date.

Our customers represent organizations across a broad array of sizes, industries, and geographies. Our customers are located in 150 countries and territories and provide service through our customer service platform in over 40 languages.

The following is a sample of our current customers across some of the industries we serve. The customers below vary in size of their respective business and the amount of revenue we derive from them.

**Business Technology**

Acquia  
AdRoll  
Box  
Dropbox

**MINDBODY**

New Relic  
Pivotal  
Shopify

**Education/Non-Profit**

charity: water  
Nottingham Trent University

**Consumer Technology**

Adobe  
Groupon

**Media/Entertainment**

La Presse  
GREE International  
REA Group

**Retail/eCommerce**



Slack	JUST EAT	Deckers Brands
Squarespace	OpenTable Pinterest	Gold's Gym
Twilio	Trivago	JackThreads
Zuora	Uber	MOO
		O'Neill
		UncommonGoods
		Zulily

## **Table of Contents**

### ***Recent Customer Case Studies***

We believe that the following case studies provide a representative sample of how our customers use our customer service platform and live chat software. These case studies have been approved by the applicable customers.

#### ***GREE International***

*Situation:* For GREE International, or GREE, a global mobile social gaming company, an important part of its customer service strategy is keeping gamers playing its chart-topping titles like Modern War, Crime City, and War of Nations even when they need to seek help or have a question. GREE wanted a customer service platform that would keep its gamers engaged, while also being easy to implement, built to scale, and able to meet its customers' demands.

*Solutions and benefits:* A key reason GREE relies on our customer service platform is the ability to deploy Zendesk Embeddables to build customer service into the core of mobile and online customer experiences. GREE uses Zendesk Embeddables to make it easy for gamers to get support within the mobile game experience so they don't leave the game to look up the answer to a question. Implementing our mobile SDK helps GREE keep its gamers playing and engaged.

#### ***JUST EAT***

*Situation:* JUST EAT, a leading international online takeaway ordering service, needed to move toward a centralized customer service platform across the 13 countries where it operates. It wanted to deploy a single customer service system with common processes while enabling its country teams to operate autonomously to serve their local customers. It also needed a modern system that allowed its agents to respond rapidly since time is of the essence when a customer needs help with a takeaway order. As importantly, it needed software that could scale with its rapid growth and be easily implemented and replicated as it expands to new geographies over time.

*Solutions and benefits:* JUST EAT started using Zendesk in the Netherlands for its 35 agents as an initial test case, and then expanded its use of our customer service platform to new locations after receiving positive feedback from its customer service team. In 2014, it chose Zendesk as its global customer service platform. Working closely with our team, it devised an implementation plan for an organization-wide rollout with specific business rules and processes to match the maturity of its various markets. JUST EAT now uses our customer service platform in the majority of the countries in which it operates and across hundreds of agents. It has begun to integrate our live chat software into its deployment.

#### ***Deckers Brands***

*Situation:* Deckers Brands is a global leader in the footwear industry. Listed on the NYSE, the company owns a number of top brands including: the UGG<sup>®</sup>, Teva<sup>®</sup>, Sanuk<sup>®</sup>, and HOKA One<sup>®</sup> brands. The company has a network of over 130-plus concept and outlet retail locations worldwide tied to its UGG<sup>®</sup> brand where Deckers Brands strives to deliver a premium, seamless and innovative omni-channel experience to its customers. As an example, Deckers Brands' Click and Collect program offers customers the opportunity to order online and choose to ship products to one of the brand's physical retail locations for pick-up. As they were evaluating numerous software solutions to drive this program, it was vital to choose a customer service platform that allowed Deckers Brands the ability to deliver consistent and proactive communication throughout the retail process in a scalable, flexible, and affordable manner.

*Solutions and benefits:* Since launching its Click and Collect customer service program, Deckers Brands has seen an uptick in demand for the service in the United States, the U.K. and



## **Table of Contents**

France across 30 flagship UGG® brand stores. Deckers Brands has been able to customize the way it gets products to its customers in a more efficient and customer-friendly way and deliver on its omni-channel strategy. The Deckers Brands team has been able to use our customer service platform's user-friendly interface from any location without installing additional hardware or software, allowing the company to quickly and easily roll out the in-store service globally. The flexibility of our customer service platform in maintaining granular access controls and workflows, in addition to robust insights and metrics, has allowed Deckers Brands to provide a more effortless, personal, and efficient experience for its customers.

### **The Zendesk Customer Service Platform**

Our customer service platform allows organizations to focus on the customer service experience within an environment designed for ease-of-use and efficiency. We offer a range of subscription plans to meet the needs of SMBs and larger organizations with the appropriate level of advanced features and product support.

#### ***Customer Support***

Our platform provides organizations with a single customer service interface to manage all their one-on-one customer interactions, no matter where those conversations start or who needs to be involved to resolve them. Our platform facilitates customer service in an efficient way through application of business rules and automations. This allows for both a reduction in ticket backlog and scaling up to accommodate growing organizations with large global audiences. Our platform is currently available in 14 languages for customer service agents. Key features include:

**Single Omni-Channel Interface.** Our customer service platform pulls in customer questions from email, chat, voice, and social media and brings them into our beautifully simple interface.

*Email.* Consolidate customer emails from multiple customer accounts into one interface for routing, assignments, and a single system of record for all conversations.

*Chat.* Communicate live with one on one chat sessions, which allow customers to initiate real-time support from employees through a web interface. All chat conversations are automatically transcribed into a ticket. We offer our live chat software on a standalone basis and provide a seamless integration of this software as the primary means through which we offer chat functionality on our customer service platform.

*Voice.* Make or receive calls through our customer service platform. Organizations can natively create support phone numbers or use existing telephony systems through our open API. Voicemails are automatically transcribed into a ticket and employees can record key information from calls in tickets.

*Social Media.* Convert Tweets and Facebook posts into tickets and reply through our customer service platform to keep a record of all conversations in one interface.

**Business Rules.** Initiate workflows triggered by ticket field changes or time-based conditions. Our customer service platform comes with pre-configured business rules that we recommend as best practices.

**Light Agents.** Provide visibility on customer interactions to the entire organization by adding non-support employees as light agents. Light agents can make private internal comments within tickets.

**Mobile Apps.** View and respond to requests through our native agent mobile apps for the iPhone, iPad, Android devices, Windows Phone, BlackBerry, and Kindle Fire. Our channel

## **Table of Contents**

agnostic SaaS architecture ensures the same information and product functionality is available regardless of the device used.

### ***Customer Self-Service Help Center***

Our customer service platform helps organizations track and predict common questions and provides a seamless path to answers. This allows customers to help themselves, find what they need, and minimize their frustration. Available in more than 40 languages for end-users, help centers can be formatted with our self-service optimized themes and customized with organization-specific functionality. Key features include:

**Knowledge Base.** Create a repository of articles, support documents, and how-to-guides that answers customers' most popular questions. Sections within the knowledge base can be restricted to certain groups of customers or internal employees. Moderators can easily manage multi-lingual content in one place.

**Community.** Provide customers an opportunity to engage with one another along with the organization through the community. Customers can start a discussion, ask a question, or suggest an idea. Posts can be organized by topic and followed by customers.

**Customer Portal.** Allow customers to view their customer service history, track outstanding requests, and manage community subscriptions through the customer portal.

### ***Customer Engagement***

With customer engagement, customer service becomes less about the ticket and more about people. Our customer service platform lets organizations gather customer data and proactively engage with customers based on the insights the data provides. This turns interactions into proactive conversations and makes them more meaningful, personal, and productive. Key features include:

**Custom User and Organization Fields.** Create custom user and organization fields to provide context for proactive customer service and set customer-centric workflows around these fields.

**Customer Lists.** Organize customers into lists based on tags and user fields to enable proactive engagement with those customers.

**Customer Satisfaction Ratings.** Automatically send a customer satisfaction survey after a customer service request is solved to collect feedback.

**Net Promoter Score.** Send a simple, single question survey to customers to measure willingness to recommend a product or service and enable organizations to easily identify vocal promoters and detractors as well as customers most likely to spread positive or negative sentiment.

**Apps and Integrations.** Provide full context for customer interactions through third-party apps and integrations that allow our customer service platform to plug into other important sources of customer and employee data, such as third-party applications for CRM, time tracking, bug tracking, and e-commerce.

*Leveraging Strategic Analytics*

Our customer service platform offers unique tools for organizations to understand their customers and track the efficiency and effectiveness of their customer service. Key features include:

**Reporting and Analytics.** Track real-time key performance indicators at the customer interaction, agent, or department level through customer service dashboards that are built into our interface. Metrics included cover customer satisfaction, first response time, ticket volume,

## **Table of Contents**

and usage of self-service features. Through Zendesk Insights, organizations with advanced plans can create custom reports and filter data as well as compute and display advanced analytics based on their raw data that is updated as frequently as every hour.

**Zendesk Benchmark.** Compare customer service performance against similarly-sized organizations in the same industry and geographic region with the Zendesk Benchmark. Aggregating data to create relevant indices, performance metrics are shown on managers' interfaces for real-time feedback and published in a quarterly report on our website.

### ***Zendesk Embeddables***

Through Zendesk Embeddables, we make it simple to extend our customer service platform and integrate critical functionality natively into an organization's website or mobile application. Key features include:

**Web Widgets.** Easily incorporate contact forms, knowledge base search, and our live chat software directly into websites to allow customers to seek and obtain support at the point of interaction with an organization. Our web widgets are optimized for mobile browsing and tuned to customer browser settings to ensure fidelity in language settings.

**Mobile SDK.** Build support natively and intuitively directly into mobile applications on both the iOS and Android platforms. Using our SDK, native support in applications is highly customizable, allowing organizations to better maintain their brand in the support environment, and highly contextual, enabling organizations to capture and collect information about device and application usage to improve the customer experience.

**Zendesk APIs.** Tie together our customer support, customer self-service, and customer engagement elements with even more advanced customizations. We construct our own software from the same APIs that we make available, demonstrating our commitment to the Zendesk developer community and up-to-date code.

### ***Subscription Plans Customer Service Platform***

We currently offer a number of subscription plans for our customer service platform that vary based on the level of advanced features and dedicated product support. After a free trial, our customers use a credit card or execute a service order to purchase a subscription plan, typically for a monthly or annual subscription term. Our packaging and pricing philosophy is centered in transparency and simplicity, with all information publicly available on our website. Our subscription plans include:

**Starter.** At a low monthly or annual price per agent, the Starter plan provides access to our customer service platform for a limited number of employees to customer communications gathered through email, chat, voice, social media, and websites, as well as performance analytics comparisons with the Zendesk Benchmark.



**Regular.** Well-suited for small organizations and enterprise departments, the Regular plan allows employees to engage with customers through more channels, including community forums. Regular plan subscribers receive email-based product support and can further customize our customer service platform and track performance with customer satisfaction metrics and dashboards.

**Plus.** To upgrade customer service for organizations of all sizes, extra features in the Plus plan include custom analytics through Zendesk Insights, multi-lingual content management, and internal knowledge base for employees. In addition to email, customers on our Plus plan receive product support from our dedicated customer advocates via phone.

**Enterprise.** As our deployments grow across departments to be the primary customer service software solution, the Enterprise plan incorporates tools to share customer interactions with the whole organization including unlimited light agents. Customers on our Enterprise plan have the

## **Table of Contents**

ability to easily manage customer service for multiple brands of their organization. In addition, we provide 24/7 email and phone support to drive customer success during deployment and ongoing use.

**Enterprise Elite.** For enterprise organizations with additional product support needs, the Enterprise Elite plan includes specialized premium service with dedicated support, product training, and service level commitments.

### **Live Chat Software**

Through our live chat software we enable organizations to communicate in real-time with their customers through online chat. Our live chat software offers advanced features to capture, analyze, and automate these conversations, enabling organizations to more effectively engage with their customers, including by proactively reaching them before they've indicated a need for support. We offer our live chat software on a standalone basis and also integrate it as a means to provide chat functionality on our customer service platform for chat-enabled agents.

### ***Subscription Plans Live Chat Software***

We currently offer three subscription plans for our live chat software that vary based on the level of advanced features provided. As with the subscription plans for our customer service platform, we provide all prospective customers a free trial. Following this free trial, our customers may use a credit card or execute a service order to purchase a subscription plan, typically for a monthly or annual subscription term. Customers that do not purchase a paid subscription plan, or who terminate a paid subscription plan, are defaulted into the Lite plan. Our subscription plans include the following:

**Lite.** The Lite plan enables organizations of any size to engage their customers using chat at no cost. An organization is permitted a single agent enabled to engage in chat on a non-concurrent basis. Up to 14 days of chat history is maintained.

**Basic.** The Basic plan allows agents to engage in an unlimited number of concurrent chats, group chat-enabled employees into up to two relevant departments, and deploy up to two triggers to help identify high value visitors and initiate conversations with them. Basic plan subscribers have full access to their chat history and the ability to fully customize their chat window.

**Advanced.** The Advanced plan enables organizations to group chat-enabled employees into an unlimited number of departments, deploy unlimited triggers, and establish operating schedules where agents are shown as available or not visible automatically. In addition, our Advanced plan offers powerful analytics to enable organizations to track and monitor activity and increase efficiency.

### **Sales and Marketing**

Subscriptions to our customer service platform and live chat software are designed to be easy to purchase. A substantial number of our customers subscribe to our customer service platform or live chat software with limited or no direct interaction with our sales team.

We also deploy a direct sales approach which includes an inside sales team based in three regional hubs: the Americas, EMEA (Europe, Middle East, and Africa), and APAC (Asia-Pacific). This team qualifies and manages prospective and current customers, aiming to initiate, retain, and expand their use of our customer service platform and live chat software over time. Our inside sales team partners with technical sales and product engineers to provide pre-sales technical support and is also responsible for driving renewals of existing contracts.

## **Table of Contents**

We have begun to develop and expand our field sales and marketing teams responsible for discovery, qualification, and account management for larger organizations. We expect to increase penetration into larger organizations through a land and expand strategy whereby we attempt to capitalize on the limited use of our customer service platform and live chat software by a functional or geographic department to expand the use of our solutions throughout other parts of the organization.

We also utilize indirect sales channels, including referral partners and resellers, as well as implementation partners. These channels provide additional sales coverage, particularly in geographic markets where we may have limited presence, as well as implementation services to our customers. Sales from indirect channels have not been significant to date, but we plan to continue to invest in these relationships to help us in certain markets and to complement our direct sales efforts.

Our marketing efforts are focused on generating awareness of our customer service platform and live chat software, creating sales leads, establishing and promoting our brand, and cultivating a community of successful and vocal customers. Based on our belief that the best method to sell our customer service platform and live chat software is to actively use and explore their capabilities, a central focus of the marketing team is to drive and encourage free trials and the successful conversion of trials to paid subscriptions. At any time during this limited-time trial, the prospective customer may elect to subscribe to simply-priced plans by providing their credit card information. We utilize both online and offline marketing initiatives, including search engine and email marketing, display and video advertising, blogs, corporate communications, whitepapers, case studies, user events, and webinars.

As of December 31, 2014, we had 303 employees in our sales and marketing organization. Our sales and marketing expenses were \$22.7 million, \$37.6 million and \$77.9 million for the years ended December 31, 2012, 2013, and 2014, respectively.

## **Product Support and Professional Services**

We strive to exemplify the great customer service that organizations of all sizes can provide with our customer service platform and live chat software by offering multi-channel service from our product support team, a rich self-help knowledge center with detailed product guides, and active community forums for agents, managers, and developers.

We offer different levels of product support for our customer service platform based upon the subscription plans purchased by our customers. Starter plan customers rely exclusively on our knowledge base and community forums for support. Support from our product support team is offered to all other subscribers, with 24/7 email and voice support available for our Enterprise plan subscribers. Customers that subscribe to our Enterprise Elite plan also have dedicated account management and product support teams. Regardless of the plan purchased, our customer service platform provides an intuitive interface, connectivity to our self-help knowledge base and community forums, and step-by-step tutorials to help employees learn, use and deploy our platform effectively.

Along with our global partners, our professional services team assists our customers in implementing more complex deployments of our customer service platform. These services include mapping our customer service platform to new and existing business processes, data migration, and integration with existing systems. Service engagements are typically scoped on a time and materials or project milestone basis and billed separately from the subscription to our customer service platform.

Through Zen U, our training platform, we offer courses to help our customers quickly learn how to effectively use our customer service platform as well as implement customer service best practices. Courses are available online, in-person at events, and, as requested by certain customers, on-site. Zen



## Table of Contents

U sessions are typically targeted at specific levels of employee seniority and product experience, such as agent essentials or administrator expert, to more effectively tailor training to intended audiences.

We maintain a separate dedicated product support team for our live chat software. In the future, we intend to integrate the separate dedicated product support team for our live chat software into our support organization.

## **Technology**

Our technology infrastructure is designed to provide an available and scalable multi-tenant cloud-based platform with industry-standard security measures. We utilize industry leading hardware and software components to provide for and enable the rapid growth of our business. We employ virtualization to maximize utilization where appropriate. Maintaining the integrity and security of our technology infrastructure is critical to our business, and as such we leverage industry-standard security and monitoring tools to ensure performance across our network.

The architecture and deployment of our customer service platform are described and guided by the key characteristics below:

**Reliability.** Our customers are highly dependent on our customer service platform, which is designed to be available 24 hours a day, 365 days a year. Servers and software components are replicated to ensure fault-tolerance and high availability. Customer data is backed up and is stored in remote data centers. We regularly report to customers on platform availability and technical operations matters through our website and social media alerts.

**Scalability.** Our application infrastructure is highly scalable and regularly processes more than 100 million data driven requests that each require the processing of specific data, on a daily basis.

**Security.** Our platform hosts a large quantity of customer data. We maintain a comprehensive security program designed to help safeguard the security and integrity of our customers' data, which includes both organizational and technical measures such as perimeter security, industry standard intrusion detection systems, security protocols, authentication of customers and employees prior to accessing our platform, and testing of each released update before deployment. We regularly review, revise, and update our security program. In addition, we regularly obtain third-party security audits and examinations of our technical operations and practices covering data security, including a Statement on Standard Attestation Engagement No. 16 (SSAE16), Service Organization Controls #2 (SOC 2) Type I Attestation.

We originally utilized third-party managed hosting facilities located in the United States exclusively for hosting our customer service platform. Beginning in 2012, we added use of third-party data centers in which we lease space and where we manage our own hosting and network equipment, or self-managed colocation data centers. We currently operate in three such facilities located in Sacramento, California, Ashburn, Virginia, and Dublin, Ireland. We intend to expand our operations in these and other self-managed colocation data centers over time, although in certain markets we may elect to not pursue this self-managed colocation strategy depending on individual market dynamics. Certain of our customers, as well as backup and certain attachment data will continue to be hosted at third-party managed hosting facilities in the United States and Europe for the foreseeable future.

Our self-managed and third-party managed hosting facilities utilized for our customer service platform provide both physical security measures, including year-round manned security, biometric access controls and video surveillance systems, and systems security measures, including firewalls, environmental controls, and redundant power and Internet connectivity. These facilities have SSAE16

## **Table of Contents**

or ISO 27001 attestations or equivalent certifications with respect to service availability and information security management.

Our live chat software was originally hosted in a managed hosting facility in Orlando, Florida with additional ephemeral-data proxy servers operated in managed hosting facilities located in North America, Europe, and Asia. In January 2015, we migrated all accounts to our self-managed colocation facility in Dublin, Ireland for persistent hosting. We intend to discontinue the use of managed hosting facilities for persistent hosting of our live chat software in 2015.

## **Research and Development**

Our research and development organization is responsible for the development, design, and testing of all aspects of our customer service platform and live chat software. We invest heavily in these efforts to continuously improve and innovate. In addition to our hosted software solution, we have developed a multi-functional API that we utilize to build our customer service platform as well as facilitate integrations of our customer service platform with third-party applications.

Our global research and development team is based in San Francisco, California; Copenhagen, Denmark; Melbourne, Australia; Dublin, Ireland; and Singapore. To foster rapid innovation, our team is further apportioned into smaller, agile development teams. Research and development for our live chat software is primarily managed in Singapore.

We deploy new features, functionality, and technologies for our customer service platform through weekly software releases or updates in order to minimize disruption and provide for constant improvement.

To create a roadmap that meets our customers' needs, we emphasize collaboration during the development process. Customers provide input through feedback forums, dialogue with our product support team, and feature utilization. As a result of using our customer service platform internally to support Zendesk customers, we also develop new or improved features based on our employees' feedback.

As of December 31, 2014, we had 238 employees in our research and development organization. Our research and development expenses were \$14.8 million, \$15.3 million and \$36.4 million for the years ended December 31, 2012, 2013, and 2014, respectively.

## **Competition**

There are a number of established and emerging competitors in the broader customer service software market. This market is fragmented, rapidly evolving, and highly competitive, with relatively low barriers to entry in some segments. We consider the principal competitive differentiators in our market to include:

Ease-of-deployment and use;

Enablement of customer communications across channels;

Availability of self-service options;



Data analytics and performance recommendations;

Mobile and multi-device capabilities;

Proactive outreach tools;

## **Table of Contents**

Complete customer profiles;

Customization and integration with third-party applications;

Brand recognition and thought leadership; and

Total cost of ownership for the customer (including software updates, ongoing maintenance, and consultant fees).

While we believe that we successfully compete with respect to these dynamics, given the large number, disparate sizes and varying areas of focus of other customer service software companies with which we compete, we may not always compare favorably with respect to some or all of the foregoing factors.

For small to medium-sized organizations, we often compete with general use computer applications and other tools that organizations have adapted for customer service, including shared accounts for email communication, phone banks for voice communication, and pen and paper, text editors, and spreadsheets for tracking and management. For larger organizations, we compete with custom software systems and large enterprise software vendors, including salesforce.com, Inc., Oracle Corporation, Verint Systems, Inc., and Microsoft Corporation. Additionally, for organizations seeking software to support employee service and other internal use cases, we compete with companies such as ServiceNow, Inc., BMC Software, Inc., Atlassian Pty Ltd, and Hewlett-Packard Company. In addition, we compete with a number of smaller SaaS providers with focused customer service applications, including desk.com (a salesforce.com service), Kayako Helpdesk Pvt. Ltd., Freshdesk, Inc., Brightwurks, Inc. (Help Scout), SupportBee, Inc., and Tenmiles Technologies Pvt. Ltd. (Happy Fox). We also compete with a number of providers of live chat software, including LivePerson, Inc, BoldChat (a LogMeIn, Inc. service), Velaro, Inc., SnapEngage, LLC, Habla, Inc. (Olark), and LiveChat, Inc. Pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses or the failure of our customer service platform and live chat software to achieve or maintain more widespread market acceptance, any of which could harm our business.

In order to maintain and improve our competitive position in the market, we remain focused in our development, operations, and sales and marketing efforts on evolving customer service needs of all organizations.

## **Intellectual Property**

We rely on a combination of patent, trade secret, copyright, and trademark laws, a variety of contractual arrangements, such as license agreements, assignment agreements, confidentiality and non-disclosure agreements, and confidentiality procedures and technical measures to gain rights to and protect the intellectual property used in our business.

We have developed a patent program, and a strategy to identify, apply for, and secure patents for innovative aspects of our platform and technology. We have one issued U.S. patent and three U.S. patent applications pending. We also have four pending patent applications in jurisdictions outside of the United States. We intend to pursue additional patent protection to the extent we believe it would be beneficial and cost-effective.

We actively pursue registration of our trademarks, logos, service marks, and domain names in the United States and in other key jurisdictions. We are the registered holder of a variety of United States and international domain names that include the term Zendesk and similar variations. We use several trademarks for our products and services, including

Zendesk, Zopim, and several logos and images.

## **Table of Contents**

We also rely on certain intellectual property rights that we license from third parties, including under certain open source licenses. Though such third-party technologies may not continue to be available to us on commercially reasonable terms, we believe that alternative technologies would be available to us.

Our policy is to require employees and independent contractors to sign agreements assigning to us any inventions, trade secrets, works of authorship, developments and other processes generated by them on our behalf and agreeing to protect our confidential information, and all of our key employees and contractors have done so. In addition, we generally enter into confidentiality agreements with our vendors and customers. We also control and monitor access to, and distribution of our software, documentation, and other proprietary information.

## **Culture and Employees**

As a company we are highly focused on our customers and their success. To support this focus, we highly value simplicity, agility, sincerity, as well as a sense of humor and humility often absent from enterprises that sell business software. These values guide our communication, work, and company culture and are a cornerstone of the team of employees that we have assembled and seek to develop. We are a global and diverse group of individuals that strive to balance work with play and a focus on big-scale thinking.

We believe strongly in our obligation to participate in and improve the communities where we work and live. We do this through an active program of corporate social responsibility. Since 2011, we have committed to dedicating an amount equivalent to our revenue from subscriptions to our Starter plan to our corporate responsibility efforts, including the financial support of a variety of non-profit organizations. In addition, we have entered into and implemented a series of community benefits agreements, including extensive volunteer efforts, workforce development and training, financial support for critical community programs, and promotion of local arts and culture, with the communities in which our offices are located and our employees live and work.

As of December 31, 2014, we had a total of 806 employees, including 293 employees located outside the United States. Although we have statutory employee representation obligations in certain countries, our U.S. employees are not represented by a labor union. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

## **Regulatory Considerations**

The legal environment of Internet-based businesses is evolving rapidly in the United States and elsewhere. The manner in which existing laws and regulations are applied in this environment, and how they will relate to our business in particular, both in the United States and internationally, is often unclear. For example, we sometimes cannot be certain which laws will be deemed applicable to us given the global nature of our business, including with respect to such topics as data privacy and security, pricing, credit card fraud, advertising, taxation, content regulation, and intellectual property ownership and infringement.

---

**Table of Contents**

Our customers, and those with whom they communicate using our customer service platform and live chat software, upload and store customer service and other data onto our platform, generally without any restrictions imposed by us. This presents legal challenges to our business and operations, such as rights of privacy or intellectual property rights related to the content loaded onto our platform. Both in the United States and internationally, we must monitor and comply with a host of legal concerns regarding the data stored and processed on our platform as well as the operation of our business. These laws include, without limitation, the following:

**Data Privacy and Security Laws.** Data privacy and security with respect to the collection of PII, continues to be the focus of worldwide legislation and regulation. We are subject to data privacy and security regulation by data protection authorities in countries throughout the world, by the U.S. federal government and by the states in which we conduct our business. In recent years, there have been a number of well-publicized data breaches involving the improper use and disclosure of individuals' personal information of individuals. Many governing authorities have responded to these incidents by enacting laws requiring holders of personal information to maintain safeguards and to take certain actions in response to a data breach, such as providing prompt notification of the breach to affected individuals and public officials, or amending existing laws to expand compliance obligations.

In the European Union, where U.S. companies must meet specified privacy and security standards, the Data Protection Directive, and data protection laws of each of the European Member countries require comprehensive information privacy and security protections for consumers with respect to PII collected about them. With respect to our customer service platform, we certify adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and comply with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks as agreed to and set forth by the U.S. Department of Commerce, and the European Union and Switzerland, concerning U.S. companies doing business in Europe, collecting PII from European citizens, and transferring such PII to the United States Under the Safe Harbor Framework. However, it is not clear whether or for how long applicable data protection authorities in the European Union will continue to recognize such certification as a valid method of compliance with restrictions set forth in the Data Protection Directive and data protection legislation of individual member states restricting the transfer of data outside of the European Economic Area. We post on our website our privacy policies and practices concerning the processing, use and disclosure of PII. Our publication of our U.S.-EU Safe Harbor certification, our privacy policy, and other statements we publish that provide promises and assurances about privacy and security can subject us to potential state and federal action if they are found to be deceptive or misrepresentative of our practices. Since our live chat software is provided by Zopim, a company organized under the laws of Singapore, certification to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU and U.S.-Swiss Safe Harbor Frameworks with respect to our live chat software is not available (to the extent such safe harbor processes are still in force). As a result, the use of our live chat software by our EU-based customers may impose additional obligations on such customers to obtain consent from data subjects to transfer PII outside of the European Union.

Certain laws and regulations that protect the collection, use and disclosure of particular types of data may hinder our ability to provide services to customers and potential customers subjected to such laws. For example, rules under the Health Insurance Portability and Accountability Act of 1996 governing the collection, use and disclosure of certain health information impose specific data protection obligations on any organization providing services covered organizations. As another example, the Gramm-Leach-Bliley Act of 1999 imposes specific obligations on companies that process certain financial data on behalf of covered entities. We do not currently certify that our customer service platform or live chat software complies with



## **Table of Contents**

these regulations. In order to compete in such highly regulated markets we will have to invest in additional resources, establish processes, and introduce additional measures to satisfy regulatory requirements applicable to companies serving such covered entities.

**Copyrights.** U.S. and international copyright and trademark laws protect the rights of third parties from infringement of their intellectual property. Our customers and those with whom they communicate on our customer service platform can generally use our customer service platform to upload and present a wide variety of content. We maintain an active copyright infringement policy and respond to takedown requests by third-party intellectual property right owners that might result from content uploaded to our customer service platform. As our business expands to other countries, we must also respond to regional and country-specific intellectual property considerations, including takedown and cease-and-desist notices in foreign languages, and we must build infrastructure to support these processes. The Digital Millennium Copyright Act, or DMCA, also applies to our business. This statute provides relief for claims of circumvention of copyright-protected technologies but includes a safe harbor that is intended to reduce the liability of online service providers for listing or linking to third-party websites or hosting content that infringes copyrights of others. The copyright infringement policies that we have implemented for our customer service platform and live chat software are intended to satisfy the DMCA safe harbor.

### **Geographic Information**

For a description of our revenue and long-lived assets by geographic location, see Note 12 of the Notes to our Consolidated Financial Statements included elsewhere in this prospectus.

### **Legal Proceedings**

From time to time, we may be subject to legal proceedings and claims 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. 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.

### **Facilities**

Our corporate headquarters are located in San Francisco, California. We operate in San Francisco under two leases for approximately 72,900 and 34,900 square feet of space, respectively. These leases expire in August 2022 and October 2019, respectively.

We also lease office space in Madison, Wisconsin, Denmark, Germany, Japan, the United Kingdom, Ireland, Australia, the Philippines, Singapore, and Brazil. We intend to procure additional space as we add employees and expand geographically. We believe our facilities are adequate and sufficient for our current needs and that, should it be needed, suitable additional or alternative space will be available to accommodate any such expansion of our operations.

We originally utilized third-party managed hosting facilities located in the United States exclusively for hosting our customer service platform. Beginning in 2012, we added use of third-party data centers in which we lease space and

where we manage our own hosting and network equipment,



**Table of Contents**

or self-managed colocation data centers. We currently operate in three such facilities located in Sacramento, California, Ashburn, Virginia, and Dublin, Ireland. We intend to expand our operations in these and other self-managed colocation data centers over time, although in certain markets we may elect to not pursue this self-managed colocation strategy depending on individual market dynamics. Certain of our customers, as well as backup and certain attachment data will continue to be hosted at third-party managed hosting facilities in the United States and Europe for the foreseeable future.

Our self-managed and third-party managed hosting facilities utilized for our customer service platform provide both physical security measures, including year-round manned security, biometric access controls and video surveillance systems, and systems security measures, including firewalls, environmental controls, and redundant power and Internet connectivity. These facilities have SSAE16 or ISO 27001 attestations or equivalent certifications with respect to service availability and information security management.

Our live chat software was originally hosted in a managed hosting facility in Orlando, Florida with additional ephemeral-data proxy servers operated in managed hosting facilities located in North America, Europe and Asia. In January 2015, we migrated all accounts to our self-managed colocation facility in Dublin, Ireland for persistent hosting. We intend to discontinue the use of managed hosting facilities for persistent hosting of our live chat software in 2015.

**Table of Contents****MANAGEMENT****Executive Officers, Directors, and Key Employees**

The following table provides information regarding our executive officers, directors, and key employees as of February 28, 2015:

<b>Name</b>	<b>Age</b>	<b>Position</b>
<i>Executive Officers:</i>		
Mikkel Svane	44	Chair of the Board of Directors and Chief Executive Officer
Alan Black	54	Senior Vice President and Chief Financial Officer
Marcus Bragg	40	Senior Vice President, Worldwide Sales and Customer Success
John Geschke	44	Senior Vice President, General Counsel, and Secretary
Adrian McDermott	46	Senior Vice President, Product Development
Matthew Price	47	Senior Vice President, Marketing
Anne Raimondi	43	Senior Vice President, Operations
<i>Non-Employee Directors:</i>		
Peter Fenton <sup>(1)</sup>	42	Director
Caryn Marooney <sup>(1)</sup>	47	Director
Elizabeth Nelson <sup>(2)</sup>	54	Director
Dana Stalder <sup>(2)(3)</sup>	46	Director
Michelle Wilson <sup>(2)(3)</sup>	52	Director
Devdutt Yellurkar <sup>(1)(3)(4)</sup>	55	Director
<i>Key Employees:</i>		
Alexander Aghassipour	47	Chief Product Officer
Toke Nygaard	41	Chief Creative Officer
Morten Primdahl	41	Chief Technology Officer
Rick Rigoli	52	Executive Vice President

(1) Member of our compensation committee.

(2) Member of our audit committee.

(3) Member of our nominating and corporate governance committee.

(4) Mr. Yellurkar has elected not to stand for reelection upon expiration of his current term, which expires at our 2015 Annual Meeting of Stockholders.

**Executive Officers**

**Mikkel Svane.** Mr. Svane co-founded Zendesk and has served as our Chief Executive Officer since August 2007 and as a member of our board of directors since August 2007. He was appointed Chair of our board of directors in January 2014. Prior to founding Zendesk, Mr. Svane founded and served as the Chief Executive Officer of Caput A/S, a software company, and served as a technology consultant. Mr. Svane holds an A.P. in marketing management from Aarhus Kobmandsskole.

We believe that Mr. Svane is qualified to serve as a member of our board of directors because of his operational and historical expertise gained from serving as our Chief Executive Officer. As one of our founders and the longest

serving member of our board of directors, we also value his deep understanding of our business as it has evolved over time.

**Alan Black.** Mr. Black has served as our Senior Vice President and Chief Financial Officer since November 2011. From February 2005 to November 2011, Mr. Black served as the Chief Executive Officer of Intelliden Inc., a software company (which was acquired by IBM in January 2010). Mr. Black holds a Bachelor of Commerce, and a Graduate Diploma in public accountancy, from McGill University, and is a Fellow at McGill's Dobson Centre for Entrepreneurial Studies.

**Table of Contents**

**Marcus Bragg.** Mr. Bragg has served as our Senior Vice President, Worldwide Sales and Customer Success since August 2013. From June 2012 to February 2013, Mr. Bragg served as the Group Vice President, Customer Experience and Customer Relationship Management at Oracle Corporation, an enterprise software company. Mr. Bragg served as Senior Vice President, Global Sales & Client Success from October 2010 to June 2012 and as Vice President and General Manager, Americas, from September 2008 to October 2010 at RightNow Technologies, Inc. a software company.

**John Geschke.** Mr. Geschke has served as our Senior Vice President since November 2012 and as our General Counsel and Secretary since July 2012. From April 2010 to June 2012, Mr. Geschke served as General Counsel of Norwest Venture Partners, a venture capital firm. From March 1996 to April 1998 and from May 1999 to March 2010, Mr. Geschke practiced law at Cooley LLP, a law firm. Mr. Geschke currently serves on the board of directors of Zulily, Inc., an Internet retailer. Mr. Geschke holds an A.B. from Princeton University with a concentration in the Woodrow Wilson School of Public and International Affairs and a J.D. from Stanford University.

**Adrian McDermott.** Mr. McDermott has served as our Senior Vice President, Product Development since July 2010. From July 2007 to July 2010, Mr. McDermott served as the Chief Technology Officer of Attributor Corporation, a software company. Mr. McDermott holds a B.Sc. in computer science from De Montfort University.

**Matthew Price.** Mr. Price has served as our Senior Vice President, Marketing since August 2014 and prior to that Vice President and General Manager, Europe, Middle East and Africa starting May 2011. From January, 2008 to April, 2011 he served as the Chief Marketing Officer of Trous Technologies, Inc., a software company. Mr. Price holds a B.Sc. in Computer Science from the University of Reading.

**Anne Raimondi.** Ms. Raimondi has served as our Senior Vice President, Operations since July 2014 and prior to that Vice President, People Operations starting August 2013. From November 2012 to August 2013, Ms. Raimondi served as the Chief Revenue Officer at TaskRabbit, Inc., a provider of an online services marketplace. From May 2012 to November 2012, Ms. Raimondi served as the Chief Executive Officer of One Jackson, Inc., an apparel company. From May 2010 to April 2012, Ms. Raimondi served as Vice President, Marketing at SurveyMonkey Inc., a software company. From September 2007 to June 2010, Ms. Raimondi served as the Vice President of Business Talent Group, a consulting company. Ms. Raimondi holds a B.A. in economics and sociology from Stanford University and an M.B.A. from Stanford University.

Each executive officer serves at the discretion of our board of directors and holds office until his or her successor is duly elected and qualified or until his or her earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

### **Non-Employee Directors**

**Peter Fenton.** Mr. Fenton has served as a member of our Board since July 2009. Since September 2006, Mr. Fenton has served as a General Partner of Benchmark, a venture capital firm. From October 1999 to May 2006, Mr. Fenton served as a Managing Partner at Accel Partners, a venture capital firm. Mr. Fenton currently serves on the boards of directors of Yelp Inc., a local directory and user review service; Twitter, Inc. a social networking service; Hortonworks, Inc., an open-source distribution platform; New Relic, Inc., a software analytics company; and a number of privately-held companies. Mr. Fenton holds a B.A. in philosophy and an M.B.A. from Stanford University.

Mr. Fenton was selected to serve on our board of directors because of his extensive experience in the venture capital industry and his knowledge of technology companies.



## Table of Contents

**Caryn Marooney.** Ms. Marooney has served as a member of our board of directors since January 2014. Since May 2011, Ms. Marooney has served in various roles at Facebook, Inc., a social networking service, currently serving as the company's Vice President of Technology Communications. From June 1997 to March 2011, Ms. Marooney served in various roles, including President and Chief Executive Officer, of The OutCast Agency, a public relations firm. Ms. Marooney holds a B.S. in labor relations from Cornell University.

Ms. Marooney was selected to serve on our board of directors because of her prior executive experience and her experience advising technology companies.

**Elizabeth Nelson.** Ms. Nelson has served as a member of our board of directors since July 2013. Ms. Nelson currently serves on the boards of Nokia, a mobile technology and telecommunications company, Pandora Media, Inc. and several private companies. From 1996 to 2005, Ms. Nelson served as the Executive Vice President and Chief Financial Officer at Macromedia, Inc., where she also served as a director from January 2005 to December 2005. Ms. Nelson's public company board service includes serving as a director of Ancestry.com, an online family history company, from 2009 to 2012, of SuccessFactors Inc., a provider of human resources solutions, from 2007 to 2012, of Autodesk Inc., a design software company, from 2007 to 2010, of CNET Networks, Inc., an Internet media company, from 2003 to 2008, and of Brightcove Inc., an online video hosting platform, from 2010 to 2014. Ms. Nelson holds a B.S.F.S. in foreign service from Georgetown University and an M.B.A. in finance with distinction from the Wharton School at the University of Pennsylvania.

Ms. Nelson was selected to serve on our board of directors due to her financial, accounting, and operational expertise from prior experience as an executive and director for public and private technology companies.

**Dana Stalder.** Mr. Stalder has served as a member of our board of directors since November 2010. Mr. Stalder has been a General Partner of Matrix Partners, a venture capital firm, since August 2008. From December 2001 to August 2008, Mr. Stalder served in various executive roles, including Senior Vice President of PayPal Products Sales and Marketing at eBay, Inc., an online marketplace company. Previously, he was the Chief Financial Officer and Vice President of Business Development of Respond.com, Vice President of Finance and Operations at Netscape Communication Corporation and an associate and manager at Ernst & Young LLP. Mr. Stalder currently serves on the boards of directors of QuinStreet, Inc., an online marketing company, and a number of privately-held companies. He holds a B.S. in commerce from Santa Clara University.

Mr. Stalder was selected to serve on our board of directors because of his significant operational experience as an executive and his deep knowledge of finance and financial reporting which is important to our board directors oversight of strategy, operations, risk management, and financial reporting.

**Michelle Wilson.** Ms. Wilson has served as a member of our board of directors since January 2014. From July 2003 to September 2012, Ms. Wilson served as Senior Vice President, General Counsel and Secretary of Amazon.com, Inc., an Internet retail company. Ms. Wilson holds a B.A. in business administration from the University of Washington and a J.D. from the University of Chicago.

Ms. Wilson was selected to serve on our board of directors because of her significant experience as an executive in the technology industry.

In connection with the expiration of Mr. Yellurkar's current term at our 2015 Annual Meeting of Stockholders, our board of directors nominated Michelle Wilson to stand for election as a Class I director at our 2015 Annual Meeting of Stockholders. Ms. Wilson notified our board of directors of her



## **Table of Contents**

intention to resign as a Class III director at the conclusion of our 2015 Annual Meeting of Stockholders, contingent upon her election as a Class I director at our 2015 Annual Meeting of Stockholders. Ms. Wilson's decision to resign as a Class III director is solely to facilitate her election as a Class I director at our 2015 Annual Meeting of Stockholders and is not a result of any disagreement with us on any matter relating to our operations, policies, or practices. Effective upon the conclusion of our 2015 Annual Meeting of Stockholders and contingent upon Ms. Wilson's election as a Class I director at such meeting, the size of our board of directors will be reduced from seven directors to six directors by eliminating the vacant directorship that will be created by Ms. Wilson's resignation as a Class III director.

**Devdutt Yellurkar.** Mr. Yellurkar has served on our board of directors since April 2009. Mr. Yellurkar has been with Charles River Ventures, a venture capital firm, since April 2008 and is a General Partner. Prior to Charles River Ventures, Mr. Yellurkar was the co-founder and Chief Executive Officer of Yantra, a software company. Previously, Mr. Yellurkar was Senior Vice President, Sales and Marketing at Infosys, a global technology services company. Mr. Yellurkar currently serves on the board of several private companies. Mr. Yellurkar holds a B.S. in statistics from Fergusson College.

Mr. Yellurkar was selected to serve on our board of directors because of the breadth of knowledge and valuable insights regarding our business that he has gained from his extensive operational and investment experience in the information technology and SaaS industries.

Mr. Yellurkar has elected not to stand for reelection upon the expiration of his current term, which expires at our 2015 Annual Meeting of Stockholders. Mr. Yellurkar's decision not to stand for reelection is not a result of any disagreement with us on any matter relating to our operations, policies, or practices.

## **Key Employees**

**Alexander Aghassipour.** Mr. Aghassipour co-founded Zendesk and has served as our Chief Product Officer since August 2007. Mr. Aghassipour holds a Bachelors in electrical engineering from Danmarks Ingeniørakademi and a Masters in information technology from the Technical University of Denmark.

**Toke Nygaard.** Mr. Nygaard has served as our Chief Creative Officer since November 2011. From January 2002 to September 2011, Mr. Nygaard was the Founder and Creative Director at Cuban Council, a digital design company.

**Morten Primdahl.** Mr. Primdahl co-founded Zendesk and has served as our Chief Technology Officer since August 2007. Mr. Primdahl holds a Bachelors in chemical engineering from the Technical University of Denmark and a Masters, Sci. IT. in computer science and information technology from the IT University of Copenhagen.

**Rick Rigoli.** Mr. Rigoli has served as our Executive Vice President since November 2011. From March 2009 to November 2011, he served as our Chief Financial Officer. From July 2006 to December 2008, Mr. Rigoli served as Chief Financial Officer of Brix Networks, Inc., a network technology company. Mr. Rigoli has a B.A. in economics and accounting from the College of the Holy Cross.

## **Code of Business Conduct and Ethics**

Our board of directors has adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers. The full text of our code of business conduct and





## **Table of Contents**

ethics is posted on the investor relations page on our website. We intend to disclose any amendments to our code of business conduct and ethics, or waivers of its requirements, on our website or in filings under the Exchange Act, as required by the applicable rules and exchange requirements.

### **Board of Directors**

Our business and affairs are managed under the direction of our board of directors. The number of directors is fixed by our board of directors, subject to the terms of our certificate of incorporation and bylaws. Our board of directors consists of seven directors, six of whom qualify as independent under the listing standards of the NYSE.

In accordance with our certificate of incorporation and our bylaws, our board of directors are divided into three classes with staggered three-year terms. Only one class of directors is elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Our directors are divided among the three classes as follows:

the Class I directors are Ms. Marooney and Mr. Yellurkar, and their terms expire at the annual meeting of stockholders to be held in 2015;

the Class II directors are Messrs. Fenton and Stalder, and their terms expire at the annual meeting of stockholders to be held in 2016; and

the Class III directors are Ms. Nelson, Mr. Svane, and Ms. Wilson, and, except as described below, their terms expire at the annual meeting of stockholders to be held in 2017.

Devdutt Yellurkar, a current Class I director, has elected not to stand for reelection upon the expiration of his current term, which expires at our 2015 Annual Meeting of Stockholders. Mr. Yellurkar's decision not to stand for reelection is not a result of any disagreement with us on any matter relating to our operations, policies, or practices. In connection with the expiration of Mr. Yellurkar's current term at our 2015 Annual Meeting of Stockholders, the board of directors nominated Michelle Wilson to stand for election as a Class I director at our 2015 Annual Meeting of Stockholders. Ms. Wilson notified our board of directors of her intention to resign as a Class III director at the conclusion of our 2015 Annual Meeting of Stockholders, contingent upon her election as a Class I director at our 2015 Annual Meeting of Stockholders. Ms. Wilson's decision to resign as a Class III director is solely to facilitate her election as a Class I director at our 2015 Annual Meeting of Stockholders and is not a result of any disagreement with us on any matter relating to our operations, policies, or practices. Effective upon the conclusion of our 2015 Annual Meeting of Stockholders and contingent upon Ms. Wilson's election as a Class I director at such meeting, the size of the board of directors will be reduced from seven directors to six directors by eliminating the vacant directorship that will be created by Ms. Wilson's resignation as a Class III director.

This classification of our board of directors may have the effect of delaying or preventing changes in control of our company.

Originally, Devdutt Yellurkar served on our board of directors as designee of entities affiliated with Charles River Ventures, Peter Fenton served on our board of directors as designee of Benchmark Capital Partners VI, LP, and Dana Stalder served on our board of directors as designee of Matrix IX, L.P., in each case pursuant to the provisions of a voting agreement, among us and certain of our stockholders. The voting agreement terminated upon the completion of

our IPO. For additional information, see Certain Relationships and Related Party Transactions Voting Agreement.

**Table of Contents**

**Director Independence**

Our board of directors has undertaken a review of the independence of each director. Based on information provided by each director concerning his or her background, employment, and affiliations, our board of directors has determined that Mmes. Marooney, Nelson, and Wilson and Messrs. Fenton, Stalder, and Yellurkar do not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is independent as that term is defined under the applicable rules and regulations of the SEC, and the listing standards of the NYSE. In making these determinations, our board of directors considered the current and prior relationships that each non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director, and the transactions involving them described in the section titled Certain Relationships and Related Party Transactions.

**Lead Independent Director**

Our board of directors has appointed Ms. Nelson to serve as our lead independent director. As lead independent director, Ms. Nelson will preside over periodic meetings of our independent directors, serve as a liaison between our Chair of the board of directors and the independent directors, and perform such additional duties as our board of directors may otherwise determine and delegate.

**Committees of the Board of Directors**

Our board of directors established an audit committee, a compensation committee, and a nominating and corporate governance committee. The composition and responsibilities of each of the committees of our board of directors is described below. Members will serve on these committees until their resignation or until as otherwise determined by our board of directors.

***Audit Committee***

Our audit committee consists of Mmes. Nelson and Wilson and Mr. Stalder, with Ms. Nelson serving as Chair. The composition of our audit committee meets the requirements for independence under current listing standards and SEC rules and regulations. Each member of our audit committee meets the financial literacy requirements of listing standards. Ms. Nelson and Mr. Stalder are each an audit committee financial expert within the meaning of Item 407(d) of Regulation S-K under the Securities Act. Our audit committee, among other things:

selects a qualified firm to serve as the independent registered public accounting firm to audit our financial statements;

helps to ensure the independence and performance of the independent registered public accounting firm;

discusses the scope and results of the audit with the independent registered public accounting firm, and review, with management and the independent registered public accounting firm, our interim and year-end operating results;

develops procedures for employees to submit concerns anonymously about questionable accounting or audit matters;

reviews our policies on risk assessment and risk management;

reviews related party transactions; and

approves all audit and all permissible non-audit services, other than de minimis non-audit services, to be performed by the independent registered public accounting firm.

## **Table of Contents**

Our audit committee operates under a written charter that satisfies the applicable rules of the SEC and the listing standards of the NYSE. In accordance with and pursuant to Section 10A(i)(3) of the Exchange Act, our board of directors has delegated to Ms. Nelson the authority to pre-approve any auditing and permissible non-auditing services to be performed by our registered independent public accounting firm, provided that all such decisions to pre-approve an activity are presented to the full audit committee at its first meeting following any such decision.

### ***Compensation Committee***

Our compensation committee consists of Ms. Marooney and Messrs. Fenton and Yellurkar, with Mr. Fenton serving as Chair. Mr. Yellurkar has elected not to stand for reelection as director and member of our compensation committee upon the expiration of his current term, which expires at our 2015 Annual Meeting of Stockholders. The composition of our compensation committee meets the requirements for independence under the listing standards of the NYSE and SEC rules and regulations. Each member of the compensation committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act, and an outside director, as defined pursuant to Section 162(m) of the Code. The purpose of our compensation committee is to discharge the responsibilities of our board of directors relating to compensation of our executive officers. Our compensation committee, among other things:

reviews, approves and determines, or make recommendations to our board of directors regarding, the compensation of our executive officers;

administers our stock and equity incentive plans;

reviews and approves or makes recommendations to our board of directors regarding incentive compensation and equity plans; and

establishes and reviews general policies relating to compensation and benefits of our employees.

Our compensation committee operates under a written charter that satisfies the applicable rules of the SEC and the listing standards of the NYSE.

### ***Nominating and Corporate Governance Committee***

Our nominating and corporate governance committee consists of Ms. Wilson and Messrs. Stalder and Yellurkar, with Ms. Wilson serving as Chair. Mr. Yellurkar has elected not to stand for reelection as director and member of our nominating and corporate governance committee upon the expiration of his current term, which expires at our 2015 Annual Meeting of Stockholders. The composition of our nominating and corporate governance committee meets the requirements for independence under the listing standards of the NYSE and SEC rules and regulations. Our nominating and corporate governance committee, among other things:

identifies, evaluates and selects, or makes recommendations to our board of directors regarding, nominees for election to our board of directors and its committees;

considers and makes recommendations to our board of directors regarding the composition of our board of directors and its committees;

reviews and assesses the adequacy of our corporate governance guidelines and recommend any proposed changes to our board of directors; and

evaluates the performance of our board of directors and of individual directors.

The nominating and corporate governance committee operates under a written charter that satisfies the applicable listing requirements and rules of the NYSE.

**Table of Contents****Compensation Committee Interlocks and Insider Participation**

None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

Peter Fenton and Devdutt Yellurkar, members of our compensation committee, are affiliated with Benchmark Capital Partners VI, L.P. and entities affiliated with Charles River Ventures, respectively. In September 2012, we sold shares of our Series D redeemable convertible preferred stock to Benchmark Capital Partners VI, L.P. and entities affiliated with Charles River Ventures. All purchasers of our Series D redeemable convertible preferred stock, including Benchmark Capital Partners VI, L.P. and entities affiliated with Charles River Ventures, are parties to our investors rights agreement and are entitled to specified registration rights thereunder. In October 2012, certain holders of our capital stock, including Benchmark Capital Partners VI, L.P. and entities affiliated with Charles River Ventures, purchased shares of our capital stock from certain of our stockholders pursuant to a tender offer. We have described each of these transactions in more detail under the section captioned Certain Relationships and Related Party Transactions.

Additionally, certain of our existing stockholders, including entities associated with Benchmark and Charles River Ventures, purchased shares of common stock in our IPO at the initial public offering price.

**Non-Employee Director Compensation**

Prior to April 2014, we did not pay any cash compensation to our non-employee directors, nor did we have a formal policy regarding equity grants to our non-employee directors. In April 2014, our board of directors adopted a policy for annual cash and equity retainers for our non-employee directors pursuant to which our non-employee directors receive the following annual cash retainers for their service:

	<b>Cash Retainer (\$)</b>
Annual Retainer for Non-Employee Directors	\$ 30,000
Additional Annual Retainer for Audit Committee Chairperson	15,000
Additional Annual Retainer for Compensation Committee Chairperson	10,000
Additional Annual Retainer for Nominating and Corporate Governance Committee Chairperson	10,000
Additional Annual Retainer for Audit Committee Non-Chairperson Members	7,500
Additional Annual Retainer for Compensation Committee Non-Chairperson Members	5,000
Additional Annual Retainer for Nominating and Corporate Governance Committee Non-Chairperson Members	5,000

Our policy provides that on the date of each annual meeting of stockholders, each non-employee continuing director will be granted an annual award of restricted stock units having a fair market value of \$150,000. Our policy also provided a one-time grant upon the closing of our IPO to each non-employee director of restricted stock units having a fair market value of \$150,000 based on the closing trading price upon the closing of our IPO. The award of restricted stock units granted will fully vest on the first anniversary of the grant date, in each case, subject to continued service as a director through the vesting date. In addition, such awards are subject to full accelerated vesting upon the sale of the company.



The following table presents the total compensation for each person who served as a non-employee member of our board of directors during fiscal year 2014. Other than as set forth in the table

**Table of Contents**

and described more fully below, we did not pay any compensation, reimburse any expense of, make any equity awards or non-equity awards to, or pay any other compensation to any of the other non-employee members of our board of directors in fiscal year 2014. Directors who are also our employees receive no additional compensation for their service as a director. The compensation received by Mr. Svane as an employee of the company is presented in Executive Compensation Summary Compensation Table 2014.

**Director Compensation Table 2014**

<b>Director Name</b>	<b>Fees Earned or Paid in Cash<sup>(1)</sup></b>	<b>Option Awards<sup>(2)(3)</sup></b>	<b>Stock Awards<sup>(2)(4)</sup></b>	<b>Total</b>
Peter Fenton, Dana Stalder, Devdutt Yellurkar	\$	\$	\$	\$
Caryn Marooney <sup>(5)</sup>	26,250	857,545 <sup>(6)</sup>	149,991 <sup>(7)</sup>	1,033,786
Elizabeth Nelson <sup>(8)</sup>	33,750		149,991 <sup>(7)</sup>	183,741
Michelle Wilson <sup>(9)</sup>	35,625	857,545 <sup>(6)</sup>	149,991 <sup>(7)</sup>	1,043,161

- (1) Messrs. Fenton, Stalder, and Yellurkar agreed to waive their annual cash retainers and restricted stock unit grants for the years ended December 31, 2014 and 2015.
- (2) The amounts reported represent the aggregate grant date fair value of the stock options and stock awards, as applicable, awarded to the director in fiscal 2014, calculated in accordance with FASB ASC Topic 718. Such aggregate grant date fair value does not take into account any estimated forfeitures related to service-vesting conditions. The assumptions used in calculating the grant date fair value of the stock options and stock awards, as applicable reported in this column are set forth in the Notes to our Consolidated Financial Statements included elsewhere in this prospectus. The amounts reported in this column reflect the accounting cost for these stock options and stock awards, as applicable, and do not correspond to the actual economic value that may be received by the directors.
- (3) Each stock option was granted pursuant to our 2009 Stock Option and Grant Plan. Unless otherwise described in the footnotes below, this option vests in 48 equal monthly increments following the date of grant, subject to continued service to us. This option is immediately exercisable and provides for full vesting acceleration in the event of a change in control.
- (4) Each restricted stock unit award was granted pursuant to our 2014 Stock Option and Incentive Plan. Unless specified otherwise, each restricted stock unit award will fully vest on the first anniversary of the grant date, in each case, subject to continued service as a director through the vesting date.
- (5) As of December 31, 2014, Ms. Marooney held options to purchase 162,500 shares of our common stock and 8,849 restricted stock units.
- (6) On January 30, 2014, upon joining the board of directors, each of Mmes. Marooney and Wilson received a stock option to purchase 162,500 shares of our common stock, with an exercise price equal to \$9.16 per share.
- (7) Upon the closing of our IPO, each of Mmes. Marooney, Nelson, and Wilson received a grant of restricted stock units having a value equal to approximately \$150,000.
- (8) As of December 31, 2014, Ms. Nelson held options to purchase 72,169 shares of our common stock, 52,960 shares of restricted stock and 8,849 restricted stock units.
- (9) As of December 31, 2014, Ms. Wilson held 125,261 shares of restricted stock and 8,849 restricted stock units.



**Table of Contents****EXECUTIVE COMPENSATION****Overview**

The following discussion contains forward-looking statements that are based on our current plans, considerations, expectations, and determinations regarding future compensation programs. The actual amount and form of compensation and the compensation policies and practices that we adopt in the future may differ materially from currently planned programs as summarized below.

As an emerging growth company, we have opted to comply with the executive compensation disclosure rules applicable to smaller reporting companies, as such term is defined in the rules promulgated under the Securities Act. The compensation provided to our named executive officers for 2014 is detailed in the 2014 Summary Compensation Table and accompanying footnotes and narrative that follows this section.

Our named executive officers in 2014 were:

Mikkel Svane, our Chief Executive Officer, or CEO, and co-founder;

Alan Black, our Senior Vice President and Chief Financial Officer, or CFO;

Matthew Price, our Senior Vice President, Marketing; and

Anne Raimondi, our Senior Vice President, Operations.

**2014 Summary Compensation Table**

The following table presents summary information regarding the total compensation awarded to, earned by, and paid to each individual who served as our CEO, CFO, and the two most highly-compensated executive officers (other than the CEO) who were serving as executive officers as of December 31, 2014 for services rendered in all capacities to the company for such years. These individuals are our named executive officers for fiscal year 2014.

Name and Principal Position <sup>(1)</sup>	Year	Salary (\$)	Bonus (\$) <sup>(2)</sup>	Option Awards (\$) <sup>(3)</sup>	Non-Equity Incentive Plan	Total (\$)
					Compensation (\$) <sup>(4)</sup>	
Mikkel Svane	2014	285,385	18,750	14,006,605	52,500	14,363,240
<i>Chief Executive Officer</i>	2013	200,000	74,906			274,906
Alan Black	2014	269,885	15,000	814,338	48,125	1,147,348
<i>Senior Vice President and Chief Financial Officer</i>	2013	240,000	59,925	552,160		852,085

Matthew Price	2014	253,692 <sup>(5)</sup>	75,158 <sup>(5)(6)</sup>	2,796,226	92,101 <sup>(5)</sup>	3,217,177
<i>Senior Vice President, Marketing</i>						
Anne Raimondi	2014	243,096	12,500	3,675,710	40,250	3,971,556
<i>Senior Vice President, Operations</i>						

- (1) Matthew Price and Anne Raimondi were not named executive officers for fiscal year 2013.
- (2) The amounts reported represent discretionary bonuses paid to each named executive officer for exemplary company performance.
- (3) The amounts reported represent the aggregate grant date fair value of the stock options awarded to the named executive officer in fiscal 2013 and 2014, as applicable, calculated in accordance with FASB ASC Topic 718. Such aggregate grant date fair value does not take into account any estimated forfeitures related to service-vesting conditions. The assumptions used in calculating the

**Table of Contents**

grant date fair value of the stock options reported in this column are set forth in the Notes to our Consolidated Financial Statements included elsewhere in this prospectus. The amounts reported in this column reflect the accounting cost for these stock options, and do not correspond to the actual economic value that may be received by the named executive officers upon exercise of the options.

- (4) The amounts reported represent the cash bonuses paid pursuant to (i) our Amended and Restated Executive Incentive Bonus Plan, or the Bonus Plan, for Messrs. Svane and Black and Ms. Raimondi and (ii) the sales commission plan for Mr. Price.
- (5) Such amount has been converted from the British Pound to USD, based on the Internal Revenue Service Yearly Average currency Exchange Rate for 2014, which provides the conversion rate of 0.632 GBP : 1 USD.
- (6) Mr. Price's 2014 bonus includes discretionary cash bonuses in the aggregate amount of \$35,601 and a one-time discretionary cash bonus in connection with his July 2014 promotion to Senior Vice President, Marketing in the amount of \$39,557.

**2014 Bonus Payments**

Our executive officers, including our named executive officers, received discretionary bonuses in fiscal year 2014 for exemplary company performance.

Other than the determination of Mr. Price's bonuses, which is described below, when determining the amounts of the discretionary bonuses, the board of directors based its decisions partially on the company's achievement of its monthly recurring revenue goals and, except for the discretionary bonuses paid to Mr. Svane, partially on input regarding such executive officer's individual performance from Mr. Svane or the other most senior executive officer to whom the officer reported. The discretionary bonuses paid to Mr. Svane were based on the evaluation of Mr. Svane's individual performance by the board of directors.

Prior to his promotion to Senior Vice President, Marketing in July 2014, Mr. Price's discretionary bonuses were determined by his manager at the time. In connection with his promotion to Senior Vice President, Marketing, our compensation committee granted Mr. Price a one-time discretionary bonus.

In addition to the discretionary bonuses, Mr. Price received commissions pursuant to a sales commission plan and Messrs. Svane and Black and Ms. Raimondi received bonuses under our Bonus Plan for fiscal year 2014.

**Amended and Restated Executive Incentive Bonus Plan**

In February 2015, our board of directors, upon the recommendation of our compensation committee, adopted the Bonus Plan, which was originally adopted on April 18, 2014, and which governs cash and equity incentive bonuses for certain of our eligible executives, including our named executive officers. The Bonus Plan provides for bonus payments based upon the attainment of performance targets, or the Performance Goals, established by the compensation committee and related to financial and operational measures or objectives with respect to the company, as well as individual performance objectives.

The Performance Goals from which the compensation committee may select include the following: cash flow (including, but not limited to, operating cash flow and free cash flow); revenue; earnings before interest, taxes, depreciation and amortization; net income (loss) (either before or after interest, taxes, depreciation or amortization); changes in the market price of our common stock; economic value-added; acquisitions or strategic transactions; operating income (loss); return on capital, assets, equity, or investment; stockholder returns; return on sales; gross or net profit levels;



**Table of Contents**

productivity; expense efficiency; margins; operating efficiency; customer satisfaction; working capital; earnings (loss) per share of our common stock; bookings, new bookings, expansion, or renewals; sales or market share; number of customers, number of new customers, or customer references; or operating income or net annual or monthly recurring revenue (any of which may be measured in absolute terms or compared to any incremental increase, measured in terms of growth, compared to another company or companies or to results of a peer group, measured against the market as a whole or as compared to applicable market indices, measured on a pre-tax or post-tax basis or applied to the performance of a business unit, segment, product line, or specific market, or the entire company).

Each executive officer who is selected to participate in the Bonus Plan will have a target bonus opportunity set for each performance period. The bonus formulas will be adopted in each performance period by the compensation committee and communicated to each executive. The Performance Goals will be measured at the end of each performance period after our financial reports have been published or such other appropriate time as the compensation committee determines. If the Performance Goals and individual performance objectives are met, payments will be made as soon as practicable following the end of each performance period. Subject to the rights contained in any agreement between the executive officer and us, an executive officer must be employed by us on the bonus payment date to be eligible to receive a bonus payment. The Bonus Plan also permits the compensation committee to approve additional bonuses to executive officers in its sole discretion and to adjust bonuses (by increasing or decreasing the amount payable) based on an executive officer's attainment of individual performance objectives.

**Outstanding Equity Awards at Fiscal 2014 Year-End**

The following table summarizes, for each of the named executive officers, the outstanding equity awards held as of December 31, 2014.

Name	Grant Date	Option Awards <sup>(1)(2)(3)</sup>			Stock Awards <sup>(2)(3)(4)</sup>		
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock that have not Vested as of December 31, 2014 (\$) <sup>(5)</sup>
Mikkel Svane	2/13/2014 <sup>(6)</sup>	2,150,000		9.52	2/13/2024		
Alan Black	11/9/2011 <sup>(7)(8)</sup>					287,500	7,006,375
	5/3/2013 <sup>(8)(9)</sup>	87,500		6.24	5/3/2023	14,584	355,412
	2/13/2014 <sup>(8)(10)</sup>	125,000		9.52	2/13/2024		
Matthew Price	5/19/2011 <sup>(11)(12)</sup>		24,479	0.61	5/19/2021		
	7/18/2012 <sup>(12)(13)</sup>		51,667	2.30	7/18/2022		
				9.52	2/13/2024		
				24.89	9/04/2024		
	2/13/2014 <sup>(12)(14)</sup>	95,840					
		12,499	137,501				



	9/04/2014 <sup>(12)(15)</sup>				
Anne Raimondi	9/03/2013 <sup>(16)(17)</sup>				
	2/13/2014 <sup>(17)(18)</sup>	190,000		6.58	9/03/2023
		250,000		9.52	2/13/2024
	9/04/2014 <sup>(17)(19)</sup>	12,499	137,501	24.89	9/04/2024

- (1) Each stock option was granted pursuant to our 2009 Stock Option and Grant Plan unless otherwise indicated below. Unless otherwise described in the footnotes below, the stock options are not immediately exercisable. Unless otherwise described in the footnotes below, the shares of common stock subject to such stock options will vest over a four-year period, with 25% of the shares to vest upon completion of one year of service measured from the vesting commencement date, and the balance to vest in 36 successive equal monthly installments.
- (2) In February 2015, we granted options to purchase 232,900, 102,500, 39,100, and 48,200 shares of our common stock under our 2014 Stock Option and Incentive Plan to Messrs. Svane, Black, and Price and Ms. Raimondi, respectively, and 40,900, 18,000, 6,900, and 8,500 restricted stock units under our 2014 Stock Option and Incentive Plan to Messrs. Svane, Black, and Price and Ms. Raimondi, respectively.

**Table of Contents**

- (3) Unless otherwise described in the footnotes below, the vesting of each equity award on a vesting date is subject to the equity award holder's provision of service through such vesting date.
- (4) Each stock award was granted pursuant to our 2009 Stock Option and Grant Plan, unless otherwise indicated below. Unless otherwise described in the footnotes below, each stock award vests over a four-year period, with 25% of the shares to vest upon completion of one year of service measured from the vesting commencement date, and the balance to vest in 36 successive equal monthly installments thereafter.
- (5) Amounts calculated using the closing market price of a share of the Company's common stock as of December 31, 2014, which was \$24.37.
- (6) This stock option to purchase 2,150,000 shares of our common stock vests in 60 equal monthly installments following the grant date. The stock option is immediately exercisable and vesting will accelerate in full in the event Mr. Svane's employment with us is terminated by us without cause or by Mr. Svane for good reason at any time during the period that ends 12 months following the consummation date of a change of control of the company.
- (7) This restricted stock award for 750,000 shares of our common stock vests over a five-year period, with 20% vested upon completion of one year of service measured from the grant date, and the balance vesting in 48 successive equal monthly installments thereafter.
- (8) The equity award has full vesting acceleration in the event that there is a change in control of our company and Mr. Black does not retain his current position in the combined ongoing company.
- (9) This stock option to purchase 175,000 shares of our common stock vests in 48 equal monthly installments commencing on April 23, 2013. The stock option is immediately exercisable. Mr. Black early exercised the option to purchase 87,500 shares, of which 14,584 shares remain unvested as of December 31, 2014.
- (10) This stock option to purchase 125,000 shares of our common stock vests in 60 equal monthly installments following the grant date, and is immediately exercisable.
- (11) This stock option to purchase 235,000 shares of our common stock vests over a four-year period, with 25% vested upon May 5, 2012, and the balance vesting in 36 successive equal monthly installments thereafter.
- (12) The equity award has vesting acceleration as to 50% of the unvested equity award in the event there is a change in control of our company and Mr. Price is not offered continued employment in the combined ongoing company.
- (13) This stock option to purchase 100,000 shares of our common stock vests over a five-year period, with 20% vested after completion of one year of service measured from the grant date, and the balance vesting in 48 successive equal monthly installments commencing on August 18, 2013.
- (14) This stock option to purchase 115,000 shares of our common stock vests in 60 equal monthly installments following the grant date, and is immediately exercisable.
- (15) This stock option, granted under our 2014 Stock Option and Incentive Plan, to purchase 150,000 shares of our common stock vests in 60 equal monthly installments commencing on August 30, 2014.
- (16) This stock option to purchase 200,000 shares of our common stock vests over a four-year period, with 25% vested upon August 19, 2014, and the balance vesting in 36 successive equal monthly installments thereafter. The stock option is immediately exercisable.
- (17) The equity award has full vesting acceleration in the event that Ms. Raimondi's employment is terminated without cause or resigns for good reason within 12 months following a change of control of the company.
- (18) This stock option to purchase 250,000 shares of our common stock vests in 60 equal monthly installments following February 13, 2014, and is immediately exercisable.
- (19) This stock option, granted under our 2014 Stock Option and Incentive Plan, to purchase 150,000 shares of our common stock vests in 60 equal monthly installments commencing on August 30, 2014.

**Executive Employment Arrangements and Potential Payments upon Termination or**

**Change of Control**

***Offer Letters and Employment Agreements***

***Alan Black***

On October 28, 2011, we entered into an offer letter with Mr. Black for the position of Chief Financial Officer. The offer letter provides for his at-will employment and sets forth his initial base salary, initial equity award, and eligibility for the company's benefit plans generally.

***Matthew Price***

On May 9, 2011, we entered into an offer letter, and then subsequently an employment agreement on July 15, 2011, with Mr. Price for the position of Vice President and General Manager of EMEA (Europe, the Middle East, and Africa). He was subsequently promoted and appointed as our Senior Vice President, Marketing on July 30, 2014. The offer letter and employment agreement

## **Table of Contents**

generally provide for his employment in the United Kingdom and set forth his initial base salary, initial equity award, initial bonus target and eligibility for the company's benefit plans in the United Kingdom generally.

### ***Anne Raimondi***

On July 1, 2013, we entered into an offer letter with Ms. Raimondi for the position of Vice President, People Ops. She was subsequently promoted and appointed as our Senior Vice President, Operations on July 30, 2014. The offer letter provides for her at-will employment and sets forth her initial base salary, initial equity award, and eligibility for the company's benefit plans generally.

### ***Equity Awards***

#### ***Mikkel Svane***

In the event of a termination of employment by us without cause or by Mr. Svane for good reason (in each case as defined in the equity award agreement) at any time during the period that ends 12 months following a sale event (as defined in the 2009 Stock Option and Grant Plan or the 2014 Stock Option and Incentive Plan, or our 2014 Plan), 100% of the unvested equity subject to the outstanding equity awards of Mr. Svane will be accelerated.

#### ***Alan Black***

In the event of a sale event (as defined in the 2009 Stock Option and Grant Plan or the 2014 Plan) in which Mr. Black does not retain his current position in the combined ongoing company, 100% of the unvested equity subject to the outstanding equity awards of Mr. Black will be accelerated.

#### ***Matthew Price***

In the event of a sale event (as defined in the 2009 Stock Option and Grant Plan or the 2014 Plan, as applicable) in which Mr. Price is not offered employment with the combined ongoing company, 50% of the unvested equity subject to the outstanding equity awards of Mr. Price will be accelerated.

#### ***Anne Raimondi***

In the event of a termination of employment by us without cause or by Ms. Raimondi for good reason (in each case as defined in the offer letter or the equity agreements, as applicable) at any time during the period that ends 12 months following a sale event (as defined in the 2009 or the 2014 Plan, as applicable), 100% of the unvested equity subject to the outstanding equity awards of Ms. Raimondi will be accelerated.

## **Employee Benefit and Stock Plans**

### ***2014 Stock Option and Incentive Plan***

Our 2014 Plan, was adopted by our board of directors in February 2014 and approved by our stockholders in April 2014 and became effective immediately prior to our IPO. The 2014 Plan replaced the 2009 Stock Option and Grant Plan and no awards under that plan have been granted following the date of our IPO. The 2014 Plan allows the compensation committee to make equity-based incentive awards to our officers, employees, directors and other key persons (including consultants).

We initially reserved 7,500,000 shares of our common stock for the issuance of awards under the 2014 Plan, plus the shares of common stock remaining available for issuance under our 2009 Stock Option and Grant Plan. The 2014 Plan provides that the number of shares reserved and available for issuance under the plan will automatically increase each January 1, beginning on January 1, 2015, by 5% of the outstanding number of shares of our common stock on the immediately preceding December 31 or

## **Table of Contents**

such lesser number of shares as determined by our compensation committee. This number is subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization.

As of December 31, 2014, options to purchase 820,000 shares of our common stock remained outstanding under our 2014 Plan at a weighted-average exercise price of approximately \$22.98 per share and restricted stock units covering 1,095,281 shares of our common stock remained outstanding under our 2014 Plan at a weighted-average grant date fair value of approximately \$19.30 per share.

The shares we issue under the 2014 Plan will be authorized but unissued shares or shares that we reacquire. The shares of common stock underlying any awards that are forfeited, cancelled, held back upon exercise or settlement of an award to satisfy the exercise price or tax withholding, reacquired by us prior to vesting, satisfied without the issuance of stock, expire or are otherwise terminated (other than by exercise) under the 2014 Plan and the 2009 Stock Option and Grant Plan will be added back to the shares of common stock available for issuance under the 2014 Plan.

Stock options and stock appreciation rights with respect to no more than 5,000,000 shares of common stock may be granted to any one individual in any one calendar year. The maximum number of shares that may be issued as incentive stock options in any one calendar year period may not exceed 7,500,000 cumulatively increased on January 1, 2016 and on each January 1 thereafter by the lesser of 5% of the number of outstanding shares as of the immediately preceding December 31, or 7,500,000 shares.

The 2014 Plan is administered by our compensation committee. Our compensation committee has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the provisions of the 2014 Plan. Persons eligible to participate in the 2014 Plan will be those full or part-time officers, employees, non-employee directors and other key persons (including consultants) as selected from time to time by our compensation committee in its discretion.

The 2014 Plan permits the granting of both options to purchase common stock intended to qualify as incentive stock options under Section 422 of the Code and options that do not so qualify. The option exercise price of each option will be determined by our compensation committee but may not be less than 100% of the fair market value of our common stock on the date of grant. The term of each option will be fixed by our compensation committee and may not exceed ten years from the date of grant. Our compensation committee will determine at what time or times each option may be exercised.

Our compensation committee may award stock appreciation rights subject to such conditions and restrictions as it may determine. Stock appreciation rights entitle the recipient to shares of common stock, or cash, equal to the value of the appreciation in our stock price over the exercise price. The exercise price may not be less than 100% of the fair market value of our common stock on the date of grant. The term of each stock appreciation right will be fixed by our compensation committee and may not exceed ten years from the date of grant. Our compensation committee will determine at what time or times each stock appreciation right may be exercised.

Our compensation committee may award restricted shares of common stock and restricted stock units to participants subject to such conditions and restrictions as it may determine. These conditions and restrictions may include the achievement of certain Performance Goals and/or continued employment with us through a specified vesting period. Our compensation committee may also grant shares of common stock that are free from any restrictions under the 2014 Plan. Unrestricted stock may be granted to participants in recognition of past services or for other valid consideration and may be issued in lieu of cash compensation due to such participant.



---

**Table of Contents**

Our compensation committee may grant performance share awards to participants that entitle the recipient to receive awards of common stock upon the achievement of certain Performance Goals and such other conditions as our compensation committee shall determine. Our compensation committee may grant dividend equivalent rights to participants that entitle the recipient to receive credits for dividends that would be paid if the recipient had held a specified number of shares of common stock.

Our compensation committee may grant cash bonuses under the 2014 Plan to participants, subject to the achievement of certain Performance Goals.

Our compensation committee may grant awards of restricted stock, restricted stock units, performance share awards or cash-based awards under the 2014 Plan that are intended to qualify as performance-based compensation under Section 162(m) of the Code. Such awards will only vest or become payable upon the attainment of Performance Goals that are established by our compensation committee and related to one or more performance criteria. The performance criteria that could be used with respect to any such awards include: total stockholder return, earnings before interest, taxes, depreciation and amortization, net income (loss) (either before or after interest, taxes, depreciation and/or amortization), changes in the market price of our common stock, economic value-added, funds from operations or similar measure, sales or revenue, acquisitions or strategic transactions, operating income (loss), cash flow (including, but not limited to, operating cash flow and free cash flow), return on capital, assets, equity, or investment, return on sales, gross or net profit levels, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, earnings (loss) per share of our common stock, sales or market shares and number of customers, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. From and after the time that we become subject to Section 162(m) of the Code, the maximum award that is intended to qualify as performance-based compensation under Section 162(m) of the Code that may be made to certain of our officers during any one calendar year period is 10,000,000 shares of common stock with respect to a share-based award and \$5.0 million with respect to a cash-based award.

The 2014 Plan provides that upon the effectiveness of a sale event, as defined in the 2014 Plan, an acquirer or successor entity may assume, continue or substitute for the outstanding awards under the 2014 Plan. To the extent that awards granted under the 2014 Plan are not assumed or continued or substituted by the successor entity, all unvested awards granted under the 2014 Plan shall terminate. In the event of such termination, individuals holding options and stock appreciation rights will be permitted to exercise such options and stock appreciation rights (to the extent exercisable) prior to the sale event. In addition, in connection with the termination of the 2014 Plan upon a sale event, we may make or provide for a cash payment to participants holding vested and exercisable options and stock appreciation rights equal to the difference between the per share cash consideration payable to stockholders in the sale event and the exercise price of the options or stock appreciation rights.

Our board of directors may amend or discontinue the 2014 Plan and our compensation committee may amend or cancel outstanding awards for purposes of satisfying changes in law or any other lawful purpose, but no such action may adversely affect rights under an award without the holder's consent. Certain amendments to the 2014 Plan require the approval of our stockholders.

No awards may be granted under the 2014 Plan after the date that is ten years from the date of stockholder approval of the 2014 Plan.

***2014 Employee Stock Purchase Plan***

In February 2014, our board of directors adopted the Employee Stock Purchase Plan, or the ESPP, and our stockholders approved the ESPP in April 2014. The ESPP initially reserved and authorized the issuance of up to a



total of 3,625,000 shares of common stock to participating

## **Table of Contents**

employees. The ESPP provides that the number of shares reserved and available for issuance will automatically increase each January 1, beginning on January 1, 2015, by the lesser of 1,500,000 shares of our common stock, 1% of the outstanding number of shares of our common stock on the immediately preceding December 31, or such lesser number of shares as determined by our compensation committee. This number is subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization.

All employees who we have employed for at least 30 days are eligible to participate in the ESPP. Any employee who owns 5% or more of the total combined voting power or value of all classes of stock is not eligible to purchase shares under the ESPP.

We make one or more offerings, consisting of one or more purchase periods, each year to our employees to purchase shares under the ESPP. The first offering began on the effective date of the registration statement in connection with our IPO and will end on the date that is approximately eighteen months following such date. Subsequent offerings will usually begin every six months and will continue for eighteen-month periods, referred to as offering periods. Each offering period will consist of three approximately six-month equal purchase periods.

Each employee who is a participant in the ESPP may purchase shares by authorizing contributions of up to 15% of his or her compensation during an offering period. Unless the participating employee has previously withdrawn from the offering, his or her accumulated contributions will be used to purchase shares on the last business day of the purchase period at a price equal to 85% of the fair market value of the shares on the first business day of the offering period or the last business day of the purchase period, whichever is lower, provided that no more than 3,000 shares of common stock may be purchased by any one employee during each purchase period. Under applicable tax rules, an employee may purchase no more than \$25,000 worth of shares of common stock, valued at the start of the offering period, under the ESPP for each calendar year in which a purchase right is outstanding.

The accumulated contributions of any employee who is not a participant on the last day of a purchase period will be refunded. An employee's rights under the ESPP terminate upon voluntary withdrawal from the plan or when the employee ceases employment with us for any reason.

The ESPP may be terminated or amended by our board of directors at any time, but shall automatically terminate on the ten year anniversary of our IPO. An amendment that increases the number of shares of common stock that are authorized under the ESPP and certain other amendments require the approval of our stockholders.

### ***2009 Stock Option and Grant Plan***

Our board of directors adopted, and our stockholders approved, our 2009 Stock Option and Grant Plan in July 2009. Our 2009 Stock Option and Grant Plan was amended in May 2013. Our 2009 Stock Option and Grant Plan allowed for the grant of incentive stock options to our employees and any of our parent and subsidiary corporations' employees, and for the grant of nonqualified stock options and restricted stock, unrestricted stock, and restricted stock units awards to employees, officers, directors and consultants of ours and our parent and subsidiary corporations.

*Authorized Shares.* Our 2009 Stock Option and Grant Plan was terminated in connection with our IPO, and accordingly, no shares are available for future issuance under the 2009 Stock Option and Grant Plan. Our 2009 Stock Option and Grant Plan continues to govern outstanding awards granted thereunder. As of December 31, 2014, options to purchase 11,224,546 shares of our common stock remained outstanding under our 2009 Stock Option and Grant Plan at a weighted-average exercise price of approximately \$6.26 per share and restricted stock units covering 1,968,174 shares of our



---

**Table of Contents**

common stock remained outstanding under our 2009 Stock Option and Grant Plan at a weighted-average grant date fair value of approximately \$10.57 per share.

*Plan Administration.* Our compensation committee administers our 2009 Stock Option and Grant Plan. Subject to the provisions of our 2009 Stock Option and Grant Plan, the administrator has the power to interpret and administer our 2009 Stock Option and Grant Plan and any agreement thereunder and to determine the terms of awards (including the recipients), the number of shares subject to each award, the exercise price (if any), the vesting schedule applicable to the awards together with any vesting acceleration and the terms of the award agreement for use under our 2009 Stock Option and Grant Plan.

*Options.* Stock options were granted under our 2009 Stock Option and Grant Plan. The exercise price per share of all options are equal at least 100% of the fair market value per share of our common stock on the date of grant. The term of an incentive stock option does not exceed ten years. An incentive stock option granted to a participant who owned more than 10% of the total combined voting power of all classes of our stock on the date of grant, or any parent or subsidiary corporations, does not have a term in excess of five years and has an exercise price of at least 110% of the fair market value per share of our common stock on the date of grant. The administrator determined the acceptable methods of payment of the exercise price of an option, which may include cash, shares or certain other property or other consideration acceptable to the administrator. After a participant's termination of service, the participant generally may exercise his or her options, to the extent vested as of such date of termination, for 90 days after termination. If termination is due to death or disability, the option generally will remain exercisable, to the extent vested as of such date of termination, until the one-year anniversary of such termination. However, in no event may an option be exercised later than the expiration of its term. If termination is for cause, then an option automatically expires upon the date of the optionee's termination.

*Restricted Stock.* Restricted stock awards were granted under our 2009 Stock Option and Grant Plan. Restricted stock awards are grants of shares of our common stock that are subject to various restrictions, including restrictions on transferability and forfeitures provisions. Shares of restricted stock will vest, and the restrictions on such shares will lapse, in accordance with terms and conditions established by the administrator.

*Restricted Stock Units.* Restricted stock units were granted under our 2009 Stock Option and Grant Plan. A restricted stock unit is an award that covers a number of shares of our common stock that may be settled upon vesting in cash, by the issuance of the underlying shares or a combination of both. The administrator determined the terms and conditions of restricted stock units, including the number of units granted, the vesting criteria (which may include accomplishing specified performance criteria or continued service to us) and the form and timing of payment.

*Transferability or Assignability of Awards.* Our 2009 Stock Option and Grant Plan generally does not allow for the transfer or assignment of awards, other than, at the discretion of the administrator, by gift to an immediate family member, to trusts for the benefit of family members, or to partnerships in which such family members are the only partners, and only the recipient of an award may exercise such an award during his or her lifetime.

*Certain Adjustments.* In the event of certain changes in our capitalization, the exercise prices of and the number of shares subject to outstanding options, and the purchase price of and the numbers of shares subject to outstanding awards will be proportionately adjusted, subject to any required action by our board of directors or stockholders.

The 2009 Stock Option and Grant Plan provides that upon the effectiveness of a sale event, as defined in the 2009 Stock Option and Grant Plan, an acquirer or successor entity may assume,



**Table of Contents**

continue or substitute for the outstanding awards under the 2009 Stock Option and Grant Plan. To the extent that awards granted under the 2009 Stock Option and Grant Plan are not assumed or continued or substituted by the successor entity, all options and all other unvested awards granted under the 2009 Stock Option and Grant Plan shall terminate. In the event of such termination, individuals holding options will be permitted to exercise such options (to the extent exercisable) prior to the sale event. In addition, in connection with the termination of the 2009 Stock Option and Grant Plan upon a sale event, we may make or provide for a cash payment equal to (A) in the case of vested and exercisable options, the difference between the per share cash consideration payable to stockholders in the sale event and the exercise price of the options and (B) in the case of restricted stock and restricted stock unit awards, the per share cash consideration payable to stockholders in the sale event multiplied by the number of shares of stock subject to such stock awards (payable at the time of the sale event or upon the later vesting of the awards).

***401(k) Plan***

We maintain a tax-qualified retirement plan that provides eligible U.S. employees with an opportunity to save for retirement on a tax-advantaged basis. Plan participants are able to defer eligible compensation subject to applicable annual Code limits. We have the ability to make discretionary contributions to the 401(k) plan but have not done so to date. The 401(k) plan is intended to be qualified under Section 401(a) of the Code with the 401(k) plan's related trust intended to be tax exempt under Section 501(a) of the Code. As a tax-qualified retirement plan, contributions to the 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan.

**Table of Contents****CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

In addition to the compensation arrangements, including employment, termination of employment and change in control arrangements, and indemnification arrangements, discussed, when required, in the sections titled Management and Executive Compensation and the registration rights described in the section titled Description of Capital Stock Registration Rights, the following is a description of each transaction since January 1, 2012 and each currently proposed transaction in which:

we have been or are to be a participant;

the amount involved exceeded or exceeds \$120,000; and

any of our directors, executive officers, or holders of more than 5% of our capital stock, or any immediate family member of, or person sharing the household with, any of these individuals, had or will have a direct or indirect material interest.

**Series D Redeemable Convertible Preferred Stock Financing**

In September 2012, we sold an aggregate of 8,582,021 shares of our Series D redeemable convertible preferred stock at a purchase price of approximately \$5.24 per share for an aggregate purchase price of approximately \$45.0 million. Shares of our Series D redeemable convertible preferred stock were converted into common stock on a one-for-two basis in connection with our IPO.

All purchasers of our Series D redeemable convertible preferred stock are entitled to specified registration rights. See the section titled Description of Capital Stock Registration Rights for more information regarding these registration rights.

The following table summarizes the Series D redeemable convertible preferred stock purchased by members of our board of directors or their affiliates and holders of more than 5% of our outstanding capital stock.

Name of Stockholder	Shares of Series D Redeemable	
	Convertible Preferred Stock	Total Purchase Price
Entities affiliated with Charles River Ventures <sup>(1)</sup>	302,895	\$ 1,588,236
Benchmark Capital Partners VI, L.P. <sup>(2)</sup>	100,965	529,412
Matrix Partners IX, L.P. <sup>(3)</sup>	96,159	504,212

- (1) Consists of shares purchased by Charles River Partnership XIII, LP and Charles River Friends XIII-A, LP. Devdutt Yellurkar, a member of our board of directors, is a managing member of Charles River XIII GP, LLC, the ultimate general partner of Charles River Partnership XIII, LP and Charles River Friends XIII-A, LP, and, therefore, may be deemed to hold voting and dispositive power over the converted shares held by Charles River Partnership XIII, LP and Charles River Friends XIII-A, LP.

- (2) Peter Fenton, a member of our board of directors, is a managing member of Benchmark Capital Management Co. VI, L.L.C., the general partner of Benchmark Capital Partners VI, L.P. and, therefore, may be deemed to hold voting and dispositive power over the converted shares held by Benchmark Capital Partners VI, L.P.
- (3) The shares were purchased by Matrix Partners IX, L.P., or Matrix IX. Matrix IX Management Co. L.L.C. is the sole general partner of Matrix IX. Dana Stalder, a member of our board of directors, is a Managing Member of Matrix IX Management Co., L.L.C. and in such capacity has sole voting and dispositive power with respect to the converted shares held by Matrix IX.



**Table of Contents**

**2012 Third-Party Tender Offer**

In September 2012, we entered into a letter agreement with certain holders of our capital stock, including entities affiliated with Charles River Ventures, Benchmark, and Matrix Partners, pursuant to which we agreed to waive certain transfer restrictions in connection with, and assist in the administration of, a tender offer that such parties proposed to commence. In October 2012, these holders commenced a tender offer to purchase shares of our capital stock from certain of our stockholders. Messrs. Svane, McDermott, and Aghassipour, each of whom is or was one of our directors or executive officers or a holder of more than 5% of our outstanding capital stock, sold shares of our capital stock in the tender offer. An aggregate of 3,989,237 shares of our capital stock were tendered pursuant to the tender offer at a price of approximately \$9.62 per share.

**Investors Rights Agreement**

On September 5, 2012, we entered into a Third Amended and Restated Investors Rights Agreement, which we refer to as our investors rights agreement, with certain holders of our outstanding redeemable convertible preferred stock, including entities with which certain of our directors are affiliated. The holders of certain shares of our common stock, including our common stock issuable in connection with the automatic conversion of all outstanding shares of our redeemable convertible preferred stock into common stock, are entitled to rights with respect to the registration of their shares. See the section titled Description of Capital Stock Registration Rights for more information regarding these registration rights.

**Right of First Refusal and Co-Sale Agreement**

We were a party to a right of first refusal and co-sale agreement, which imposed restrictions on the transfer of our capital stock. The right of first refusal and co-sale agreement terminated as of the closing of our IPO and the restrictions on the transfer of our capital stock set forth in this agreement no longer apply.

**Voting Agreement**

We were party to a voting agreement under which certain holders of our capital stock, including persons who hold more than 5% of our outstanding capital stock and entities with which certain of our directors are affiliated, agreed to vote their shares on certain matters, including with respect to the election of directors. The voting agreement terminated as of the closing of our IPO and none of our stockholders have any special rights regarding the election or designation of members of our board of directors or the voting of our capital stock of the company.

**Participation in our Initial Public Offering**

Certain of our existing stockholders, including entities associated with Benchmark, Charles River Ventures, and Matrix Partners, each of which is an affiliate of a member of our board of directors, purchased an aggregate of approximately 1,415,000 shares of common stock in our IPO at the initial public offering price. The underwriters received the same discount from shares of our common stock purchased by such stockholders as they did from other shares of our common stock sold to the public in our IPO.

**Other Transactions**

We have granted stock options and other equity awards to our executive officers and certain of our directors. See the sections titled Executive Compensation Outstanding Equity Awards at Fiscal 2014 Year-End and Management Non-Employee Director Compensation for a description of these options and equity awards.



## **Table of Contents**

We have entered into arrangements with certain of our executive officers that, among other things, provide for certain severance and change in control benefits.

We believe the terms of the transactions described above were comparable to terms we could have obtained in arm's-length dealings with unrelated third parties.

### **Limitation of Liability and Indemnification of Officers and Directors**

Our certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for the following:

any breach of their duty of loyalty to our company or our stockholders;

any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;

unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or

any transaction from which they derived an improper personal benefit.

Any amendment to, or repeal of, these provisions will not eliminate or reduce the effect of these provisions in respect of any act, omission or claim that occurred or arose prior to that amendment or repeal. If the Delaware General Corporation Law is amended to provide for further limitations on the personal liability of directors of corporations, then the personal liability of our directors will be further limited to the greatest extent permitted by the Delaware General Corporation Law.

In addition, our bylaws provide that we will indemnify, to the fullest extent permitted by law, any person who is or was a party or is threatened to be made a party to any action, suit or proceeding by reason of the fact that he or she is or was one of our directors or officers or is or was serving at our request as a director or officer of another corporation, partnership, joint venture, trust, or other enterprise. Our bylaws provide that we may indemnify to the fullest extent permitted by law any person who is or was a party or is threatened to be made a party to any action, suit, or proceeding by reason of the fact that he or she is or was one of our employees or agents or is or was serving at our request as an employee or agent of another corporation, partnership, joint venture, trust, or other enterprise. Our bylaws provide that we must advance expenses incurred by or on behalf of a director or officer in advance of the final disposition of any action or proceeding, subject to very limited exceptions.

Further, we have entered into indemnification agreements with each of our directors and executive officers that may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnification agreements require us, among other things, to indemnify our directors and executive officers against liabilities that may arise by reason of their status or service. These indemnification agreements also require us to advance all expenses incurred by the directors and executive officers in investigating or defending any such action, suit, or proceeding. We believe that these agreements are necessary to attract and retain qualified individuals to serve as directors and executive officers.

The limitation of liability and indemnification provisions that are included in our certificate of incorporation, bylaws, and in indemnification agreements that we enter into with our directors and executive officers may discourage stockholders from bringing a lawsuit against our directors and executive officers for breach of their fiduciary duties. They may also reduce the likelihood of derivative

## **Table of Contents**

litigation against our directors and executive officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be harmed to the extent that we pay the costs of settlement and damage awards against directors and executive officers as required by these indemnification provisions. At present, we are not aware of any pending litigation or proceeding involving any person who is or was one of our directors, officers, employees or other agents or is or was serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, for which indemnification is sought, and we are not aware of any threatened litigation that may result in claims for indemnification.

We have obtained insurance policies under which, subject to the limitations of the policies, coverage is provided to our directors and executive officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts as a director or executive officer, including claims relating to public securities matters, and to us with respect to payments that may be made by us to these directors and executive officers pursuant to our indemnification obligations or otherwise as a matter of law.

Certain of our non-employee directors may, through their relationships with their employers or affiliated entities, be insured or indemnified against certain liabilities incurred in their capacity as members of our board of directors. In our indemnification agreements with these non-employee directors, we have agreed that our indemnification obligations are primary to any such other indemnification arrangements.

The underwriting agreement provides for indemnification by the underwriters of us and our officers, directors and employees for certain liabilities arising under the Securities Act, or otherwise.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling our company pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

## **Policies and Procedures for Related Party Transactions**

The audit committee has the primary responsibility for reviewing and approving or disapproving related party transactions, which are transactions between us and related persons in which the aggregate amount involved exceeds or may be expected to exceed \$120,000 and in which a related person has or will have a direct or indirect material interest. For purposes of this policy, a related person will be defined as a director, executive officer, nominee for director, or greater than 5% beneficial owner of our common stock, in each case since the beginning of the most recently completed year, and their immediate family members. Our audit committee charter provides that the audit committee shall review and approve or disapprove any related party transactions. In April 2014, we adopted formal standards, policies and procedures governing the review and approval of related party transactions, effective upon the effectiveness of the registration statement related to our IPO. The entities affiliated with certain of our directors that purchased shares in our IPO indicated an interest in participating in our IPO, and we disclosed these indications, prior to the effectiveness of these policies and procedures. As their purchases were consistent with the previously disclosed indications of interest, our audit committee did not separately approve these transactions.

**Table of Contents**

**PRINCIPAL AND SELLING STOCKHOLDERS**

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of February 28, 2015, and as adjusted to reflect the sale of common stock offered by us and the selling stockholders in this offering assuming no exercise of the underwriters' option to purchase additional shares, for:

each of our named executive officers;

each of our directors;

all of our directors and executive officers as a group;

each person known by us to be the beneficial owner of more than five percent of any class of our voting securities; and

each of the selling stockholders.

We have determined beneficial ownership in accordance with the rules of the SEC, and therefore it represents sole or shared voting or investment power with respect to our securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares that they beneficially owned, subject to community property laws where applicable. We have deemed shares of our common stock subject to options and restricted stock units outstanding as of February 28, 2015 that were exercisable or issuable or will become exercisable or issuable within 60 days of February 28, 2015 to be outstanding and to be beneficially owned by the person holding the option or restricted stock unit for the purpose of computing the percentage ownership of that person but have not treated them as outstanding for the purpose of computing the percentage ownership of any other person.

We have based percentage ownership of our common stock before this offering on 76,221,659 shares of our common stock outstanding as of February 28, 2015. Percentage ownership of our common stock after this offering assumes (A) our sale of 7,500,000 shares of common stock in this offering, and (B) 1,030,000 shares of our common stock that we expect to be sold in this offering by the selling stockholders, including 20,000 shares to be sold in this offering by a certain selling stockholder upon the exercise of options.

**Table of Contents**

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Zendesk, Inc., 1019 Market Street, San Francisco, California 94103.

	Shares Beneficially Owned		Number of Shares Being Offered	Shares Beneficially Owned After the Offering	
	Number	Percentage		Number	Percentage
<b>Named Executive Officers and Directors:</b>					
Mikkel Svane <sup>(1)</sup>	6,220,674	7.9%	600,000	5,620,674	6.5%
Alan Black <sup>(2)</sup>	805,596	1.1%		805,596	1.0%
Anne Raimondi <sup>(3)</sup>	475,138	*	30,000	445,138	*
Matthew Price <sup>(4)</sup>	122,145	*		122,145	*
Peter Fenton <sup>(5)(12)</sup>	10,963,967	14.4%		10,963,967	13.1%
Caryn Marooney <sup>(6)</sup>	162,500	*		162,500	*
Elizabeth Nelson <sup>(7)</sup>	168,749	*		168,749	*
Dana Stalder <sup>(8)(13)</sup>	4,460,227	5.9%		4,460,227	5.3%
Michelle Wilson	162,500	*		162,500	*
Devdutt Yellurkar <sup>(9)(11)</sup>	11,827,808	15.5%	400,000	11,427,808	13.6%
All directors and executive officers as a group (13 persons) <sup>(10)</sup>	37,529,380	46.1%	1,030,000	36,499,380	41.0%
<b>Other 5% or Greater Stockholders:</b>					
Entities associated with Charles River Ventures <sup>(11)</sup>					
Benchmark Capital Partners VI, LP <sup>(12)</sup>	10,963,967	14.4%	400,000	10,963,967	13.1%
Matrix Partners IX, L.P. <sup>(13)</sup>	4,420,171	5.8%		4,420,171	5.3%
FMR LLC <sup>(14)</sup>	5,871,816	7.7%		5,871,816	7.0%

\* Represents beneficial ownership of less than one percent (1%) of the outstanding shares of our common stock.

- (1) Consists of 4,059,266 shares held of record and (ii) 2,159,704 shares subject to outstanding options which are exercisable within 60 days of February 28, 2015, and 1,704 shares issuable within 60 days of February 28, 2015 upon the vesting of restricted stock units.
- (2) Consists of (i) 588,077 shares held of record, (ii) 213,508 shares held by the Alan J. Black and Linda J. Black, Trustees of Black Family Trust 2001 U/I DTD. November 26, 2001, in which Mr. Black shares voting and dispositive power, (iii) 51,000 shares held by the Black 2013 Family Heritage Trust, in which Mr. Black shares voting and dispositive power, (iv) 51,000 shares held by the Black 2014 Family Heritage Trust, in which Linda Black, Mr. Black's wife, shares voting and dispositive power, and (v) 216,770 shares subject to outstanding options which are exercisable within 60 days of February 28, 2015, and 749 shares issuable within 60 days of February 28, 2015 upon the vesting of restricted stock units.
- (3) Consists of (i) 12,777 shares held of record and (ii) 462,007 shares subject to outstanding options which are exercisable within 60 days of February 28, 2015, and 354 shares issuable within 60 days of February 28, 2015 upon the vesting of restricted stock units.
- (4) Consists of 101,859 shares subject to outstanding options which are exercisable within 60 days of February 28, 2015, and 287 shares issuable within 60 days of February 28, 2015 upon the vesting of restricted stock units.

- (5) Consists of the shares listed in footnote 12 below which are held of record by Benchmark Capital Partners VI, L.P. Mr. Fenton is a managing member of Benchmark Capital Management Co. VI, L.L.C., the general partner of Benchmark Capital Partners VI, L.P. and, therefore, may be deemed to hold voting and dispositive power over the shares held by Benchmark Capital Partners VI, L.P.
- (6) Consists of 162,500 shares subject to outstanding options which are exercisable within 60 days of February 28, 2015.



**Table of Contents**

- (7) Consists of (i) 96,580 shares held of record and (ii) 72,169 shares subject to outstanding options which are exercisable within 60 days of February 28, 2015.
- (8) Consists of (i) 4,420,171 shares held by Matrix Partners IX, L.P., or Matrix IX, (ii) 7,595 shares held by Weston & Co. IX L.L.C., or Weston IX, as nominee for Vista Grande Trust, a trust of which Dana Stalder is the trustee and a beneficiary, or the Trust. and (iii) 32,461 shares held by the Trust. Mr. Stalder is a managing member of Matrix IX Management Co., L.L.C., the general partner of Matrix IX, and has sole voting and dispositive power with respect to the Matrix IX shares. Weston IX owns a total of 251,913 shares as nominee for certain beneficial owners, including Mr. Stalder. Mr. Stalder disclaims beneficial ownership of the Weston IX shares, except for the 7,595 shares held by Weston IX as nominee for the Trust. Mr. Stalder has sole voting and/or investment control over the 7,595 shares held by Weston IX as the trustee and beneficiary of the Trust, but does not have sole or shared voting and/or investment control with respect to the other shares held by Weston IX.
- (9) Consists of (i) 320,442 shares held by Charles River Friends XIII-A, LP, (ii) 11,416,636 shares held by Charles River Partnership XIII, LP, and (iii) 90,730 held by Devdutt Yellurkar. Charles River XIII GP, LLC is the ultimate general partner of both Charles River Partnership XIII, LP and Charles River Friends XIII-A, LP. Mr. Yellurkar is a managing member of Charles River XIII GP, LLC, the ultimate general partner of Charles River Partnership XIII, LP and Charles River Friends XIII-A, LP, and, therefore, may be deemed to hold voting and dispositive power over the shares held by Charles River Partnership XIII, LP and Charles River Friends XIII-A, LP.
- (10) Consists of (i) 32,256,756 shares held of record by our current directors and executive officers and (ii) 5,263,532 shares issuable pursuant to outstanding stock options which are exercisable within 60 days of February 28, 2015, and 9,062 shares issuable within 60 days of February 28, 2015 upon the vesting of restricted stock units.
- (11) Consists of (i) 320,442 shares held by Charles River Friends XIII-A, LP and (ii) 11,416,636 shares held by Charles River Partnership XIII, LP. Charles River XIII GP, LLC is the ultimate general partner of both Charles River Partnership XIII, LP and Charles River Friends XIII-A, LP. The Managing Members of Charles River XIII GP, LLC are Izhar Armony, Jon Auerbach, Bruce I. Sachs, William P. Tai, Devdutt Yellurkar and George Zachary, and, therefore, they may be deemed to hold voting and dispositive power with respect to the shares held by Charles River Friends XIII-A, LP, and Charles River Partnership XIII, LP. The address for these entities is One Broadway, 15th Floor, Cambridge, MA 02142.
- (12) Consists of 10,963,967 shares held directly by Benchmark Capital Partners VI, L.P. ( BCP VI ) for itself and as nominee for Benchmark Founders Fund VI, L.P. ( BFF VI ), Benchmark Founders Fund VI-B, L.P. ( BFF VI-B ) and related individuals. Benchmark Capital Management Co. VI, L.L.C. ( BCMC VI ) is the general partner of each of BCP VI, BFF VI and BFF VI-B. Mr. Fenton, Alexandre Balkanski, Matthew R. Cohler, Bruce W. Dunlevie, J. William Gurley, Kevin R. Harvey, Robert C. Kagle, Steven M. Spurlock and Mitchell H. Lasky are the managing members of BCMC VI and share voting and dispositive power over the shares held by BCP VI. The address for these entities is 2965 Woodside Road, Woodside, California 94062.
- (13) Consists of 4,420,171 shares held by Matrix Partners IX, L.P. The address for Matrix Partners IX, L.P. is 101 Main St. 17th Floor, Cambridge, MA 02142.
- (14) The address of FMR LLC ( FMR ) is 245 Summer Street, Boston, Massachusetts 02210. FMR, along with certain of its subsidiaries and affiliates, and other companies, has the sole power to vote or direct the vote of 383,798 shares and the sole power to dispose or direct the disposition of 5,871,816 shares of common stock. Edward C. Johnson 3d is a Director and the Chairman of FMR LLC and Abigail P. Johnson is a Director, the Vice Chairman, the Chief Executive Officer and the President of FMR LLC. Members of the family of Edward C. Johnson 3d, including Abigail P. Johnson, are the predominant owners, directly or through trusts, of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. The Johnson family group and all other Series B shareholders have entered into a shareholders voting agreement under which all

Series B voting common shares will be voted in accordance with the majority vote

**Table of Contents**

of Series B voting common shares. Accordingly, through their ownership of voting common shares and the execution of the shareholders' voting agreement, members of the Johnson family may be deemed, under the Investment Company Act of 1940, to form a controlling group with respect to FMR LLC. Neither FMR LLC nor Edward C. Johnson nor Abigail P. Johnson has the sole power to vote or direct the voting of the shares owned directly by the various investment companies registered under the Investment Company Act ( Fidelity Funds ) advised by Fidelity Management & Research Company ( FMR Co ), a wholly owned subsidiary of FMR LLC, which power resides with the Fidelity Funds' Boards of Trustees. Fidelity Co carries out the voting of the shares under written guidelines established by the Fidelity Funds' Boards of Trustees. This information is based solely upon a Schedule 13G filed by FMR LLC on February 13, 2015.

**Table of Contents**

**DESCRIPTION OF CAPITAL STOCK**

**General**

The following description summarizes the most important terms of our capital stock. We adopted a certificate of incorporation and bylaws in connection with our IPO, and this description summarizes the provisions that are included therein. Because it is only a summary, it does not contain all the information that may be important to you. For a complete description of the matters set forth in this Description of Capital Stock, you should refer to our certificate of incorporation, bylaws, and investors rights agreement, which have been filed with the SEC and are incorporated by reference into the registration statement of which this prospectus forms a part, and to the applicable provisions of Delaware law. Our authorized capital stock consists of 400,000,000 shares of common stock, \$0.01 par value per share, and 10,000,000 shares of undesignated preferred stock, \$0.01 par value per share.

As of December 31, 2014, there were 75,577,076 shares of our common stock outstanding, held by approximately 117 stockholders of record. Our board of directors is authorized, without stockholder approval except as required by the listing standards of the NYSE, to issue additional shares of our capital stock.

**Common Stock**

***Dividend Rights***

Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of our common stock are entitled to receive dividends out of funds legally available if our board of directors, in its discretion, determines to issue dividends and then only at the times and in the amounts that our board of directors may determine.

***Voting Rights***

Holders of our common stock are entitled to one vote for each share held on all matters submitted to a vote of stockholders. We have not provided for cumulative voting for the election of directors in our certificate of incorporation. Our certificate of incorporation establishes a classified board of directors that is divided into three classes with staggered three-year terms. Only the directors in one class are subject to election by a plurality of the votes cast at each annual meeting of our stockholders, with the directors in the other classes continuing for the remainder of their respective three-year terms.

***No Preemptive or Similar Rights***

Our common stock is not entitled to preemptive rights, and is not subject to conversion, redemption or sinking fund provisions.

***Right to Receive Liquidation Distributions***

If we become subject to a liquidation, dissolution or winding-up, the assets legally available for distribution to our stockholders would be distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock.



## **Table of Contents**

### ***Fully Paid and Non-Assessable***

All of the outstanding shares of our common stock are, and the shares of our common stock to be issued pursuant to this offering will be, fully paid and non-assessable.

### **Preferred Stock**

Our board of directors is authorized, subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the designation, powers, preferences, and rights of the shares of each series and any of its qualifications, limitations or restrictions, in each case without further vote or action by our stockholders. Our board of directors can also increase or decrease the number of shares of any series of preferred stock, but not below the number of shares of that series then outstanding, without any further vote or action by our stockholders. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of our common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring, or preventing a change in our control of our company and might adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. We have no current plan to issue any shares of preferred stock.

### **Options**

As of December 31, 2014, we had outstanding options to purchase an aggregate of 11,224,546 shares of our common stock, with a weighted-average exercise price of \$6.26 per share, pursuant to our 2009 Stock Option and Grant Plan, which was adopted in July 2009 and last amended in May 2013, and 820,000 shares of our common stock, with a weighted-average exercise price of \$22.98 per share, pursuant to our 2014 Plan, which was adopted in April 2014.

### **Restricted Stock Units**

As of December 31, 2014, we had 1,968,174 shares of our common stock subject to outstanding restricted stock units under our 2009 Stock Option and Grant Plan and 1,095,281 shares of our common stock subject to outstanding restricted stock units under our 2014 Plan.

### **Registration Rights**

Certain holders of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act. These registration rights are contained in our investors' rights agreement. We, along with certain holders of our common stock are parties to the investors' rights agreement. The registration rights set forth in the investors' rights agreement expire on the five year anniversary of our IPO, or, with respect to any particular stockholder, when such stockholder is able to sell all of its shares pursuant to Rule 144 of the Securities Act during any 90-day period. We will pay the registration expenses (other than underwriting discounts, selling commissions and stock transfer taxes) of the holders of the shares registered pursuant to the registrations described below. In an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of shares such holders may include. In connection with this offering, our officers and directors and the selling stockholders have agreed, subject to certain exceptions (including sales pursuant to existing sales plans adopted pursuant to Rule 10b5-1 of the Exchange Act), not to sell or otherwise dispose of any securities without the prior written consent of the underwriters through May 31, 2015. See the section titled "Underwriting" for more information regarding such restrictions.



## **Table of Contents**

### ***Demand Registration Rights***

The holders of certain shares of our of our common stock are entitled to certain demand registration rights. The holders of at least 51% of these shares then outstanding can request that we register the offer and sale of their shares if the anticipated aggregate offering price of such registrable securities is in excess of \$30 million. We are obligated to effect only two such registrations. If we determine that it would be seriously detrimental to our stockholders to effect such a demand registration, we have the right to defer such registration, not more than once in any 12-month period, for a period of up to 60 days. Additionally, we will not be required to effect a demand registration during the period beginning with 60 days prior to our good faith estimate of the date of the filing of, and ending up to 180 days following the effectiveness of, a registration statement relating to the public offering of our common stock.

### ***Piggyback Registration Rights***

In connection with this offering, certain holders were entitled to, and the necessary percentage of holders waived, their rights to notice of this offering and to include their registrable securities in this offering. If we propose to register the offer and sale of our common stock under the Securities Act in connection with another public offering of our common stock, the holders of certain shares of our common stock will be entitled to certain piggyback registration rights allowing the holders to include their shares in such registration, subject to certain marketing and other limitations. As a result, whenever we propose to file a registration statement under the Securities Act, other than with respect to (A) a registration related to a company stock plan, (B) a registration relating to an SEC Rule 145 transaction, (C) a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the public offering of our common stock, or (D) a registration in which the only common stock being registered is common stock issuable upon the conversion of debt securities that are also being registered, the holders of these shares are entitled to notice of the registration and have the right, subject to certain limitations, to include their shares in the registration.

### ***S-3 Registration Rights***

The holders of certain shares of our common stock may make a written request that we register the offer and sale of their shares on a registration statement on Form S-3 if we are eligible to file a registration statement on Form S-3 so long as the request covers at least that number of shares with an anticipated offering price, net of underwriting discounts and commissions, of at least \$10 million. These stockholders may make an unlimited number of requests for registration on Form S-3; however, we will not be required to effect a registration on Form S-3 if we have effected two such registrations within the 12-month period preceding the date of the request. Additionally, if we determine that it would be seriously detrimental to our stockholders to effect such a registration, we have the right to defer such registration, not more than once in any 12-month period, for a period of up to 60 days.

### ***Anti-Takeover Provisions***

The provisions of Delaware law, our certificate of incorporation and our bylaws, which are summarized below, may have the effect of delaying, deferring, or discouraging another person from acquiring control of our company. They are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.





---

**Table of Contents*****Delaware Law***

We are governed by the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a public Delaware corporation from engaging in a business combination with an interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes mergers, asset sales, or other transactions resulting in a financial benefit to the stockholder. An interested stockholder is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of the corporation's outstanding voting stock. These provisions may have the effect of delaying, deferring, or preventing a change in our control.

***Certificate of Incorporation and Bylaw Provisions***

Our certificate of incorporation and our bylaws include a number of provisions that could deter hostile takeovers, delay or prevent changes in control of our board of directors or management team, or discourage lawsuits against our directors or officers, including the following:

**Board of Directors Vacancies.** Our certificate of incorporation and bylaws authorize only our board of directors to fill vacant directorships, including newly created seats. In addition, the number of directors constituting our board of directors is permitted to be set only by a resolution adopted by a majority vote of our entire board of directors. These provisions would prevent a stockholder from increasing the size of our board of directors and then gaining control of our board of directors by filling the resulting vacancies with its own nominees. This makes it more difficult to change the composition of our board of directors and promotes continuity of management.

**Classified Board.** Our certificate of incorporation and bylaws provide that our board of directors is classified into three classes of directors. A third party may be discouraged from making a tender offer or otherwise attempting to obtain control of us as it is more difficult and time consuming for stockholders to replace a majority of the directors on a classified board of directors. See Management Board of Directors.

**Stockholder Action; Special Meeting of Stockholders.** Our certificate of incorporation provides that our stockholders may not take action by written consent, but may only take action at annual or special meetings of our stockholders. As a result, a holder controlling a majority of our capital stock would not be able to amend our bylaws or remove directors without holding a meeting of our stockholders called in accordance with our bylaws. Our bylaws further provide that special meetings of our stockholders may be called only by a majority of our board of directors, the Chair of our board of directors, our Chief Executive Officer or our President, therefore prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of our stockholders to force consideration of a proposal or for stockholders controlling a majority of our capital stock to take any action, including the removal of directors.

**Advance Notice Requirements for Stockholder Proposals and Director Nominations.** Our bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. Our

bylaws also specify certain requirements regarding the form and content of a stockholder's notice. These provisions might preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders if the proper procedures are not followed. These provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.

## **Table of Contents**

**No Cumulative Voting.** The Delaware General Corporation Law provides that stockholders are not entitled to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our certificate of incorporation does not provide for cumulative voting.

**Directors Removed Only for Cause.** Our certificate of incorporation provides that stockholders may remove directors only for cause.

**Amendment of Charter Provisions.** Any amendment of the above provisions in our certificate of incorporation requires approval by holders of at least seventy-five percent (75%) of our then outstanding common stock.

**Issuance of Undesignated Preferred Stock.** Our board of directors has the authority, without further action by the stockholders, to issue up to 10,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by our board of directors that may be senior to our common stock. The existence of authorized but unissued shares of preferred stock enables our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest, or other means.

**Exclusive Jurisdiction for Certain Actions.** 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 Delaware General Corporation Law, our certificate of incorporation or our bylaws, or (D) any action asserting a claim against us governed by the internal affairs doctrine. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers. The enforceability of similar exclusive forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings, and it is possible that a court could rule that this provision in our certificate of incorporation is inapplicable or unenforceable.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A. The transfer agent and registrar's address is 250 Royall Street, Canton, Massachusetts 02021.

### **Listing**

Our common stock is listed on the NYSE under the symbol ZEN.

---

**Table of Contents**

**SHARES ELIGIBLE FOR FUTURE SALE**

Future sales of our common stock in the public market, or the perception that those sales may occur, could adversely affect the prevailing market price at such time and our ability to raise equity capital in the future.

Following the closing of this offering, based on the number of shares of our capital stock outstanding as of December 31, 2014 and after giving effect to the issuance of 20,000 shares of common stock to be acquired by a certain selling stockholder upon the exercise of options in order to sell those shares in this offering, we will have a total of 83,097,076 shares of our common stock outstanding. Of these outstanding shares, all of the 8,530,000 shares of common stock sold in this offering by us and the selling stockholders and all 12,777,777 shares of our common stock sold by us in our IPO will be freely tradable, except that any shares purchased in this offering or in our IPO by our affiliates, as that term is defined in Rule 144 under the Securities Act, would only be able to be sold in compliance with the Rule 144 limitations described below.

The remaining outstanding shares of our common stock are deemed restricted securities as defined in Rule 144. Restricted securities may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 or Rule 701 under the Securities Act, which rules are summarized below. In addition, our officers and directors and the selling stockholders have entered into lock-up agreements with the underwriters under which they have agreed, subject to specific exceptions (including sales pursuant to existing sales plans adopted pursuant to Rule 10b5-1 of the Exchange Act), not to sell any of our stock through May 31, 2015. After giving effect to the lock-up agreements, assuming the occurrence of no transactions which are excepted from the provisions thereof, and subject to the provisions of Rule 144 or Rule 701, based on an assumed offering date of December 31, 2014, shares of our common stock (excluding the shares sold in this offering) will be available for sale in the public market as follows:

as of the date of this prospectus, 43,471,766 shares of common stock will be available for sale in the public market; and

at various times after May 31, 2015, 18,317,533 shares of our common stock will be available for sale in the public market although a portion of such shares held by our affiliates will be subject to volume limitations pursuant to Rule 144.

**Lock-Up and Market Stand-Off Agreements**

We, our officers and directors and the selling stockholders have agreed or will agree that, subject to certain exceptions (including sales pursuant to existing sales plans adopted pursuant to Rule 10b5-1 of the Exchange Act), through May 31, 2015, we and they will not, without the prior written consent of Goldman, Sachs & Co. and Morgan Stanley & Co. LLC, dispose of or hedge any shares or any securities convertible into or exchangeable for shares of our capital stock. Goldman, Sachs & Co. and Morgan Stanley & Co. LLC may, in their discretion, release any of the securities subject to these lock-up agreements at any time. There are no contractually specified conditions for the waiver of lock-up restrictions and any waiver is at the discretion of Goldman, Sachs & Co. and Morgan Stanley & Co. LLC. When determining whether or not to release shares from these lock-up agreements, Goldman, Sachs & Co. and Morgan Stanley & Co. LLC may consider, among other factors, the reasons given by us or the securityholder, as applicable, for requesting the release, the number of shares for which the release is being requested and market conditions at such time.

**Rule 144**

In general, under Rule 144 as currently in effect, a person who is not deemed to have been one of our affiliates for purposes of the Securities Act at any time during the 90 days preceding a sale and

## **Table of Contents**

who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than our affiliates, is entitled to sell those shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then that person would be entitled to sell those shares without complying with any of the requirements of Rule 144.

In general, under Rule 144, as currently in effect, our affiliates or persons selling shares on behalf of our affiliates are entitled to sell upon expiration of the lock-up agreements described above, within any three-month period, a number of shares that does not exceed the greater of:

1% of the number of shares of our common stock then outstanding, which will equal approximately 830,971 shares immediately after this offering; or

the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about us.

### **Rule 701**

Rule 701 generally allows a stockholder who purchased shares of our common stock pursuant to a written compensatory plan or contract and who is not deemed to have been an affiliate of our company during the immediately preceding 90 days to sell these shares in reliance upon Rule 144, but without being required to comply with the public information, holding period, volume limitation or notice provisions of Rule 144. Rule 701 also permits affiliates of our company to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144.

### **Registration Rights**

Pursuant to our investors' rights agreement, the holders of certain shares of our common stock, or their transferees, are entitled to certain rights with respect to the registration of the offer and sale of those shares under the Securities Act. See the section titled "Description of Capital Stock - Registration Rights" for a description of these registration rights. If the offer and sale of these shares is registered, the shares will be freely tradable without restriction under the Securities Act, and a large number of shares may be sold into the public market.

### **Stock Options and Restricted Stock Units**

As of December 31, 2014, restricted stock units covering 1,968,174 shares of our common stock and options to purchase a total of 11,224,546 shares of common stock, each pursuant to our 2009 Stock Option and Grant Plan were outstanding, of which options to purchase 4,242,145 shares were vested and exercisable. As of December 31, 2014, restricted stock units covering 1,095,281 shares of our common stock and options to purchase a total of 820,000 shares of common stock, each pursuant to our 2014 Plan were outstanding, of which options to purchase 51,037 shares were vested and exercisable. These shares have been registered on Form S-8 under the Securities Act and are eligible for sale in the public market, subject to the Rule 144 limitations applicable to affiliates, vesting

restrictions and any applicable lock-up agreements. See the section titled Executive Compensation Employee Benefit and Stock Plans for a description of our equity incentive plans.



---

**Table of Contents**

**MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS OF OUR COMMON STOCK**

The following is a summary of certain material U.S. federal income tax considerations for non-U.S. holders (as defined below) relating to the acquisition, ownership and disposition of common stock pursuant to this offering. This summary deals only with common stock held as a capital asset (within the meaning of Section 1221 of the Code) by a non-U.S. holder and does not discuss the U.S. federal income tax considerations applicable to a non-U.S. holder that is subject to special treatment under U.S. federal income tax laws, including, but not limited to: a dealer in securities or currencies; a financial institution; a regulated investment company; a real estate investment trust; a tax-exempt organization; an insurance company; a person holding common stock as part of a hedging, integrated, conversion or straddle transaction or a person deemed to sell common stock under the constructive sale provisions of the Code; a trader in securities that has elected the mark-to-market method of accounting; a person liable for alternative minimum tax; an entity that is treated as a partnership for U.S. federal income tax purposes; a person that received such common stock in connection with services provided; a U.S. person whose functional currency is not the U.S. dollar; a controlled foreign corporation ; a passive foreign investment company ; or a U.S. expatriate.

This summary is based upon provisions of the Code, applicable U.S. Treasury regulations promulgated thereunder, published rulings and judicial decisions, all as in effect as of the date hereof. Those authorities may be changed, perhaps retroactively, or may be subject to differing interpretations, which could result in U.S. federal income tax consequences different from those discussed below. This summary does not address all aspects of U.S. federal income tax, does not deal with all tax considerations that may be relevant to non-U.S. holders in light of their personal circumstances and does not address the Medicare tax imposed on certain investment income or any state, local, foreign, gift, estate or alternative minimum tax considerations.

For purposes of this discussion, a U.S. holder is a beneficial holder of common stock that is: an individual citizen or resident of the United States; a corporation (or any other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia; an estate the income of which is subject to U.S. federal income taxation regardless of its source; or a trust if it (A) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

For purposes of this discussion a non-U.S. holder is a beneficial holder of common stock that is neither a U.S. holder nor a partnership (or any other entity or arrangement that is treated as a partnership) for U.S. federal income tax purposes. However, neither the term U.S. holder nor the term non-U.S. holder includes any entity or other person that is subject to special treatment under the Code. If a partnership (or an entity or arrangement that is treated as a partnership for U.S. federal income tax purposes) holds common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding common stock is urged to consult its own tax advisors.

**PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THEIR PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES IN LIGHT OF THEIR SPECIFIC SITUATIONS, AS WELL AS THE TAX CONSEQUENCES ARISING UNDER ANY STATE, LOCAL OR NON-U.S. TAX LAWS AND ANY OTHER U.S. FEDERAL TAX LAWS (INCLUDING THE U.S. FEDERAL ESTATE AND GIFT TAX LAWS).**



---

**Table of Contents****Distributions on our Common Stock**

Distributions with respect to common stock, if any, generally will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Any portion of a distribution in excess of current or accumulated earnings and profits will be treated as a return of capital and will first be applied to reduce the holder's tax basis in its common stock, but not below zero. Any remaining amount will then be treated as gain from the sale or exchange of the common stock and will be treated as described under the section entitled "Disposition of our Common Stock" below.

Distributions treated as dividends that are paid to a non-U.S. holder, if any, with respect to shares of our common stock will be subject to U.S. federal withholding tax at a rate of 30% (or lower applicable income tax treaty rate) of the gross amount of the dividends unless the dividends are effectively connected with the non-U.S. holder's conduct of a trade or business in the United States. If a non-U.S. holder is engaged in a trade or business in the United States and dividends with respect to the common stock are effectively connected with the conduct of that trade or business and, if required by an applicable income tax treaty, are attributable to a U.S. permanent establishment, then although the non-U.S. holder will generally be exempt from the 30% U.S. federal withholding tax, provided certain certification requirements are satisfied, the non-U.S. holder will be subject to U.S. federal income tax on those dividends on a net income basis at regular graduated U.S. federal income tax rates in the same manner as if such holder were a resident of the United States. Any such effectively connected income received by a foreign corporation may, under certain circumstances, be subject to an additional branch profits tax equal to 30% (or lower applicable income tax treaty rate) of its effectively connected earnings and profits for the taxable year, as adjusted under the Code. To claim the exemption from withholding with respect to any such effectively connected income, the non-U.S. holder must generally furnish to us or our paying agent a properly executed IRS Form W-8ECI (or applicable successor form). A non-U.S. holder of shares of common stock who wishes to claim the benefit of an exemption or reduced rate of withholding tax under an applicable treaty must furnish to us or our paying agent a valid IRS Form W-8BEN or IRS Form W-8BEN-E (or applicable successor form) certifying such holder's qualification for the exemption or reduced rate. If a non-U.S. holder is eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty, it may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the Internal Revenue Service, or IRS. Non-U.S. holders are urged to consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

**Disposition of our Common Stock**

Non-U.S. holders may recognize gain upon the sale, exchange, redemption or other taxable disposition of common stock. Such gain generally will not be subject to U.S. federal income tax unless: (A) that gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a U.S. permanent establishment maintained by the non-U.S. holder); (B) the non-U.S. holder is a nonresident alien individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or (C) we are or have been a U.S. real property holding corporation for U.S. federal income tax purposes at any time during the shorter of the five-year period preceding the date of disposition or the holder's holding period for our common stock, and certain other requirements are met. We believe that we are not and we do not anticipate becoming a U.S. real property holding corporation for U.S. federal income tax purposes.

If a non-U.S. holder is an individual described in clause (A) of the preceding paragraph, the non-U.S. holder will generally be subject to tax on a net income basis at the regular graduated U.S. federal individual income tax rates in the same manner as if such holder were a resident of the United States, unless an applicable income tax treaty provides otherwise. If the non-U.S. holder is an individual described in clause (B) of the preceding paragraph, the non-U.S.

holder will generally be subject to a flat

**Table of Contents**

30% tax on the gain, which may be offset by U.S. source capital losses even though the non-U.S. holder is not considered a resident of the United States, provided that the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses. If a non-U.S. holder is a foreign corporation that falls under clause (A) of the preceding paragraph, it will be subject to tax on a net income basis at the regular graduated U.S. federal corporate income tax rates in the same manner as if it were a resident of the United States and, in addition, the non-U.S. holder may be subject to the branch profits tax at a rate equal to 30% (or lower applicable income tax treaty rate) of its effectively connected earnings and profits.

**Information Reporting and Backup Withholding Tax**

We report to our non-U.S. holders and the IRS the amount of dividends paid during each calendar year and the amount of any tax withheld. All distributions to holders of common stock are subject to any applicable withholding. Information reporting requirements apply even if no withholding was required because the distributions were effectively connected with the non-U.S. holder's conduct of a U.S. trade or business or withholding was reduced or eliminated by an applicable income tax treaty. This information also may be made available under a specific treaty or agreement with the tax authorities in the country in which the non-U.S. holder resides or is established. Under U.S. federal income tax law, interest, dividends and other reportable payments may, under certain circumstances, be subject to backup withholding at the then applicable rate. Backup withholding, however, generally will not apply to distributions on our common stock to a non-U.S. holder, provided the non-U.S. holder furnishes to us or our paying agent the required certification as to its non-U.S. status, such as by providing a valid IRS Form W-8BEN, IRS Form W-8BEN-E or IRS Form W-8ECI, or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax and the appropriate information is timely supplied to the IRS.

**Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the Code, commonly referred to as the Foreign Account Tax Compliance Act or FATCA, and applicable Treasury Regulations thereunder impose withholding tax of 30% on certain withholdable payments, including dividends paid on our common stock and the gross proceeds of a disposition of our common stock, in each case if the common stock is held by or through a foreign financial institution (as specifically defined by the applicable rules) and certain other non-U.S. entities unless various U.S. information reporting and due diligence requirements (generally relating to ownership by U.S. persons of certain interests in or accounts with those entities) have been satisfied, or an exemption applies. FATCA withholding tax described in this paragraph cannot be reduced under an income tax treaty with the United States or by providing an IRS Form W-8BENE or similar documentation. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. Non-U.S. holders should consult with their own tax advisors regarding the possible implications of the withholding described herein.

The withholding provisions described above generally apply to payments of dividends and are scheduled to apply to payments of gross proceeds from a sale or other disposition of our common stock on or after January 1, 2017.

**THE PRECEDING DISCUSSION OF U.S. FEDERAL TAX CONSIDERATIONS IS FOR GENERAL INFORMATION PURPOSES ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, GIFT, ESTATE, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED**

**CHANGE IN APPLICABLE LAWS.**

**Table of Contents****UNDERWRITING**

We, the selling stockholders, and the underwriters named below have entered into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, the underwriters have severally agreed to purchase the number of shares indicated in the following table. Goldman, Sachs & Co. and Morgan Stanley & Co. LLC are the representatives of the underwriters.

<b>Underwriters</b>	<b>Number of Shares</b>
Goldman, Sachs & Co.	3,104,469
Morgan Stanley & Co. LLC	2,810,803
Merrill Lynch, Pierce, Fenner & Smith Incorporated	839,046
Credit Suisse Securities (USA) LLC	713,189
Pacific Crest Securities LLC	503,427
Canaccord Genuity Inc.	419,523
JMP Securities LLC	139,543
<b>Total</b>	<b>8,530,000</b>

The underwriters are committed to take and pay for all of the shares being offered, if any are taken, other than the shares covered by the option described below unless and until this option is exercised.

The underwriters have an option to buy up to an additional 1,279,500 shares from us. They may exercise that option for 30 days. If any shares are purchased pursuant to this option, the underwriters will severally purchase shares in approximately the same proportion as set forth in the table above.

The following tables show the per share and total underwriting discounts and commissions to be paid to the underwriters by us and the selling stockholders identified in this prospectus. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 1,279,500 additional shares.

**Paid by Us**

	<b>No Exercise</b>	<b>Full Exercise</b>
Per Share	\$ 0.989625	\$ 0.989625
Total	\$ 7,422,188	\$ 8,688,413

**Paid by the Selling Stockholders**

	<b>No Exercise</b>	<b>Full Exercise</b>
Per Share	\$ 0.989625	\$ 0.989625
Total	\$ 1,019,314	\$ 1,019,314

Shares sold by the underwriters to the public will be offered at the public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to \$0.55965 per share from the public offering price. After the offering of the shares, the representatives may change the offering price and the other selling terms. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.



## **Table of Contents**

We, the selling stockholders, and our officers and directors have agreed with the underwriters, subject to certain exceptions (including sales pursuant to existing sales plans adopted pursuant to Rule 10b5-1 of the Exchange Act), not to dispose of or hedge any of our or their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through May 31, 2015, except with the prior written consent of the representatives. This agreement does not apply to any existing employee benefit plans. See [Shares Eligible for Future Sale](#) for a discussion of certain transfer restrictions.

Our common stock is listed on the NYSE under the symbol [ZEN](#).

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering, and a short position represents the amount of such sales that have not been covered by subsequent purchases. A [covered short position](#) is a short position that is not greater than the amount of additional shares for which the underwriters' option described above may be exercised. The underwriters may cover any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to cover the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option described above. [Naked short sales](#) are any short sales that create a short position greater than the amount of additional shares for which the option described above may be exercised. The underwriters must cover any such naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of our common stock, and together with the imposition of the penalty bid, may stabilize, maintain, or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. The underwriters are not required to engage in these activities and may end any of these activities at any time. These transactions may be effected on the NYSE, in the over-the-counter market or otherwise.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of shares offered.

We estimate that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$0.9 million. We will pay all such expenses on behalf of the company and the selling stockholders, other than any transfer taxes payable by the selling stockholders. We have agreed to reimburse the underwriters for certain FINRA-related and other expenses incurred by them in connection with this offering in an amount up to \$30,000.

We and the selling stockholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.



---

**Table of Contents**

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage, and other financial and non-financial activities and services. Certain of the underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the issuer and to persons and entities with relationships with the issuer, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors, and employees may purchase, sell, or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps, and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities, and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise), and/or persons and entities with relationships with the issuer. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color, or trading ideas and/or publish or express independent research views in respect of such assets, securities, or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

**European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of shares to the public in that Relevant Member State at any time:

- (A) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (B) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43.0 million and (3) an annual net turnover of more than 50.0 million, as shown in its last annual or consolidated accounts;
- (C) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
- (D) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of shares to the public in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the

terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

---

**Table of Contents**

**United Kingdom**

Each underwriter has represented and agreed that:

- (A) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the shares in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (B) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

**Hong Kong**

The shares may not be offered or sold by means of any document other than (A) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (B) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (C) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

**Singapore**

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (A) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (B) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, or (C) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (A) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (B) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.



**Table of Contents**

**Japan**

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations, and ministerial guidelines of Japan.

**Switzerland**

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange, or SIX or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, us, or the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes, or CISA. The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

**Dubai International Financial Centre**

This prospectus supplement relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority, or DFSA. This prospectus supplement is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus supplement nor taken steps to verify the information set forth herein and has no responsibility for the prospectus supplement. The shares to which this prospectus supplement relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus supplement you should consult an authorized financial advisor.

**Australia**

No placement document, prospectus, product disclosure statement or other disclosure document has been lodged with the Australian Securities and Investments Commission, or ASIC, in relation to the offering. This prospectus does not constitute a prospectus, product disclosure statement or other disclosure document under the Corporations Act 2001, or the Corporations Act, and does not purport to include the information required for a prospectus, product disclosure statement or other disclosure document under the Corporations Act.





**Table of Contents**

Any offer in Australia of the shares may only be made to persons, or the Exempt Investors, who are sophisticated investors (within the meaning of section 708(8) of the Corporations Act), professional investors (within the meaning of section 708(11) of the Corporations Act) or otherwise pursuant to one or more exemptions contained in section 708 of the Corporations Act so that it is lawful to offer the shares without disclosure to investors under Chapter 6D of the Corporations Act.

The shares applied for by Exempt Investors in Australia must not be offered for sale in Australia in the period of 12 months after the date of allotment under the offering, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act. Any person acquiring shares must observe such Australian on-sale restrictions.

This prospectus contains general information only and does not take account of the investment objectives, financial situation or particular needs of any particular person. It does not contain any securities recommendations or financial product advice. Before making an investment decision, investors need to consider whether the information in this prospectus is appropriate to their needs, objectives and circumstances, and, if necessary, seek expert advice on those matters.

**Table of Contents**

**LEGAL MATTERS**

The validity of the shares of common stock offered by this prospectus will be passed upon for us by Goodwin Procter LLP, Menlo Park, California. The underwriters have been represented by Cooley LLP, San Francisco, California.

**EXPERTS**

The consolidated financial statements of Zendesk, Inc. at December 31, 2014 and 2013, and for each of the three years in the period ended December 31, 2014, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

**ADDITIONAL INFORMATION**

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement, some of which is contained in exhibits to the registration statement as permitted by the rules and regulations of the SEC. For further information with respect to us and our common stock, we refer you to the registration statement, including the exhibits filed as a part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other document is not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, please see the copy of the contract or document that has been filed. Each statement in this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. You may obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is [www.sec.gov](http://www.sec.gov).

We are subject to the information and reporting requirements of the Exchange Act and, in accordance with this law, are required to file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference facilities and the website of the SEC referred to above. We also maintain a website at [www.zendesk.com](http://www.zendesk.com). Upon the completion of this offering, you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on our website is not a part of this prospectus and the inclusion of our website address in this prospectus is an inactive textual reference only.

**Table of Contents**

**ZENDESK, INC.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	Page
<u>Report of Ernst &amp; Young, LLP, Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Operations</u>	F-4
<u>Consolidated Statements of Comprehensive Loss</u>	F-5
<u>Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)</u>	F-6
<u>Consolidated Statements of Cash Flows</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-9

F-1

**Table of Contents**

**Report of Ernst & Young, LLP, Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Zendesk, Inc.

We have audited the accompanying consolidated balance sheets of Zendesk, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, consolidated statements of redeemable convertible preferred stock and stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Zendesk, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Redwood City, CA

February 17, 2015

**Table of Contents****ZENDESK, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands, except par value and shares)**

	<b>As of</b>	
	<b>December 31,</b>	
	<b>2013</b>	<b>2014</b>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 53,725	\$ 80,265
Marketable securities	9,889	42,204
Accounts receivable, net of allowance for doubtful accounts of \$282 and \$264	7,237	11,523
Prepaid expenses and other current assets	3,008	5,013
<b>Total current assets</b>	<b>73,859</b>	<b>139,005</b>
Marketable securities, noncurrent	2,225	9,205
Property and equipment, net	15,431	41,895
Goodwill and intangible assets, net		14,152
Other assets	1,221	1,531
<b>Total assets</b>	<b>\$ 92,736</b>	<b>\$ 205,788</b>
<b>Liabilities, redeemable convertible preferred stock, and stockholders equity (deficit)</b>		
Current liabilities:		
Accounts payable	\$ 3,685	\$ 4,763
Accrued liabilities	4,648	7,689
Accrued compensation and related benefits	4,618	11,738
Deferred revenue	28,473	50,908
Current portion of credit facility	365	3,041
Current portion of capital leases	364	10
<b>Total current liabilities</b>	<b>42,153</b>	<b>78,149</b>
Deferred revenue, noncurrent	575	823
Credit facility, noncurrent	23,395	3,911
Other liabilities	1,520	9,199
<b>Total liabilities</b>	<b>67,643</b>	<b>92,082</b>
Commitments and contingencies (Note 8)		
Redeemable convertible preferred stock, par value \$0.01, issuable in series: 24.0 million shares and no shares authorized; 23.6 million shares and no shares issued and outstanding as of December 31, 2013 and 2014, respectively		71,369

## Stockholders' equity (deficit):

Preferred stock, par value \$0.01 per share: no shares and 10.0 million shares authorized as of December 31, 2013 and 2014, respectively; no shares issued and outstanding as of December 31, 2013 and 2014

Common stock, par value \$0.01 per share: 125.0 million and 400.0 million shares

authorized; 23.7 million and 76.1 million shares issued; 23.2 million and 75.5 million

shares outstanding as of December 31, 2013 and 2014, respectively (including

0.8 million and 0.6 million shares subject to repurchase, legally issued and outstanding

as of December 31, 2013 and 2014, respectively)

	229	755
Additional paid-in capital	18,591	246,000

Accumulated other comprehensive income (loss)	10	(528)
---	----	-------

Accumulated deficit	(64,454)	(131,869)
---------------------	----------	-----------

Treasury stock at cost; 0.5 million shares as of December 31, 2013 and 2014	(652)	(652)
---	-------	-------

<b>Total stockholders' equity (deficit)</b>	<b>(46,276)</b>	<b>113,706</b>
---	-----------------	----------------

**Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)**

\$ 92,736	\$ 205,788
-----------	------------

See Notes to Consolidated Financial Statements.

Table of Contents

## ZENDESK, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2012	2013	2014
<b>Revenue</b>	\$ 38,228	\$ 72,045	\$ 127,049
<b>Cost of revenue<sup>(1)</sup></b>	13,253	24,531	46,047
<b>Gross profit</b>	24,975	47,514	81,002
<b>Operating expenses<sup>(1)</sup>:</b>			
Research and development	14,816	15,288	36,403
Sales and marketing	22,749	37,622	77,875
General and administrative	11,558	16,437	32,869
Total operating expenses	49,123	69,347	147,147
Operating loss	(24,148)	(21,833)	(66,145)
Other expense, net	(96)	(517)	(1,533)
Loss before provision for (benefit from) income taxes	(24,244)	(22,350)	(67,678)
Provision for (benefit from) income taxes	121	221	(263)
<b>Net loss</b>	(24,365)	(22,571)	(67,415)
Accretion of redeemable convertible preferred stock	(50)	(49)	(18)
Deemed dividend to investors in relation to the tender offer	(8,326)		
<b>Net loss attributable to common stockholders</b>	\$ (32,741)	\$ (22,620)	\$ (67,433)
<b>Net loss per share attributable to common stockholders, basic and diluted</b>	\$ (1.67)	\$ (1.04)	\$ (1.26)
<b>Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted</b>	19,629	21,674	53,571

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

	Year Ended December 31,		
	2012	2013	2014
Cost of revenue	\$ 129	\$ 254	\$ 2,464
Research and development	4,117	635	10,918

Edgar Filing: Zendesk, Inc. - Form 424B4

Sales and marketing	1,313	1,210	10,680
General and administrative	4,081	2,755	8,077

See Notes to Consolidated Financial Statements.

F-4



Table of Contents**ZENDESK, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(In thousands)**

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Net loss	\$ (24,365)	\$ (22,571)	\$ (67,415)
Other comprehensive income (loss), net of tax:			
Net change in unrealized gain (loss) on available-for-sale investments		10	(71)
Changes in foreign currency translation adjustment	(40)		(467)
Comprehensive loss	\$ (24,405)	\$ (22,561)	\$ (67,953)

See Notes to Consolidated Financial Statements.

Table of Contents

## ZENDESK, INC.

## CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE

## PREFERRED STOCK AND STOCKHOLDERS EQUITY (DEFICIT)

(In thousands)

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock		Stockholders Equity (Deficit)		Total Stockholders Equity (Deficit)
	Shares	Amount	Shares	Amount		Shares	Amount	Accumulated Other Comprehensive Income	Accumulated Deficit	
Balances as of December 31, 2011	15,016	\$ 26,385	21,996	\$ 187	\$ 1,349	(535)	\$ (652)	\$ 40	\$ (17,518)	\$ (16,594)
Issuance of Series D redeemable convertible preferred stock, net of issuance costs of \$115	8,582	44,885								
Issuance of common stock upon exercise of stock options			718	7	207					214
Issuance of common stock upon early exercise of stock options			529							
Vesting of early exercised stock options				18	705					723
Repurchase of common stock			(5)							
Issuance of common stock warrants					182					182
Share-based compensation					9,725					9,725
Accretion of redeemable convertible		50			(50)					(50)

preferred stock										
Foreign currency translation adjustment						(40)			(40)	
Net loss								(24,365)	(24,365)	
Balances as of December 31, 2012	23,598	71,320	23,238	212	12,118	(535)	(652)	(41,883)	(30,205)	
Issuance of common stock upon exercise of stock options			765	8	673					681
Issuance of common stock upon early exercise of stock options			164							
Vesting of early exercised stock options				9	852					861
Repurchase of common stock			(457)							
Share-based compensation					4,997					4,997
Accretion of redeemable convertible preferred stock		49			(49)					(49)
Unrealized gain on investment								10	10	
Net loss								(22,571)	(22,571)	
Balances as of December 31, 2013	23,598	71,369	23,710	229	18,591	(535)	(652)	10	(64,454)	(46,276)

**Table of Contents**

	Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Stockholders Treasury Stock		Equity (Deficit) Accumulated Other Comprehensive Income		Total Stockholders Equity (Deficit)
	Shares	Amount	Shares	Amount		Shares	Amount	(Loss)	Deficit	
Issuance of common stock upon initial public offering, net of offering costs			12,778	128	102,962					103,090
Accretion of redeemable convertible preferred stock		18			(18)					(18)
Conversion of preferred stock to common stock upon initial public offering	(23,598)	(71,387)	34,323	343	71,044					71,387
Issuance of common stock for acquisition of Zopim Technologies Ptd Ltd.			902	9	10,883					10,892
Issuance of common stock upon exercise of stock options			3,207	32	4,938					4,970
Issuance of common stock for settlement of restricted stock units			517	5	(5)					
Shares withheld related to net share settlement of restricted stock units			(147)	(1)	(2,117)					(2,118)
Issuance of common stock upon early exercise of			309							

stock options									
Vesting of early exercised stock options		5	1,507						1,512
Issuance of common stock in connection with employee stock purchase plans	428	4	3,267						3,271
Issuance of common stock upon exercise of warrants	111	1	(1)						
Repurchase of common stock	(4)								
Share-based compensation			34,615						34,615
Tax benefit from share-based award activity				334					334
Other comprehensive loss, net of income taxes						(538)			(538)
Net loss							(67,415)		(67,415)
Balances as of December 31, 2014	\$	76,134	\$ 755	\$ 246,000	(535)	\$ (652)	\$ (528)	\$ (131,869)	\$ 113,706

See Notes to Consolidated Financial Statements.

Table of Contents

## ZENDESK, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2012	2013	2014
<b>Cash flows from operating activities</b>			
Net loss	\$ (24,365)	\$ (22,571)	\$ (67,415)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,506	5,222	11,456
Share-based compensation	9,640	4,854	32,139
Excess tax benefit from share-based award activity			(334)
Other	123	179	337
Changes in operating assets and liabilities:			
Accounts receivable	(1,404)	(3,594)	(3,846)
Prepaid expenses and other current assets	(1,571)	(482)	(1,444)
Other assets and liabilities	(383)	303	1,742
Accounts payable	704	2,409	947
Accrued liabilities	401	1,724	351
Accrued compensation and related benefits	1,583	2,043	5,767
Deferred revenue	7,670	13,918	22,390
<b>Net cash provided by (used in) operating activities</b>	(5,096)	4,005	2,090
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	(3,582)	(7,116)	(21,665)
Internal-use software costs	(3,505)	(4,661)	(8,013)
Purchases of marketable securities		(12,409)	(54,330)
Proceeds from maturities of marketable securities			10,450
Proceeds from sale of marketable securities			4,004
Decrease (increase) to restricted cash	(32)		153
Cash paid for the acquisition of Zopim, net of cash acquired			(1,896)
<b>Net cash used in investing activities</b>	(7,119)	(24,186)	(71,297)
<b>Cash flows from financing activities</b>			
Proceeds from initial public offering, net of issuance costs			103,090
Proceeds from issuance of Series D redeemable convertible preferred stock, net of issuance costs	44,885		
Proceeds from exercise of employee stock options	2,125	1,793	7,229
Taxes paid related to net share settlement of equity awards			(2,117)
Proceeds from issuance of common stock from employee equity plans			4,404
Excess tax benefit from share-based award activity			334

Edgar Filing: Zendesk, Inc. - Form 424B4

Proceeds from issuance of debt	23,760	3,940	
Principal payments on debt		(20,748)	
Principal payments on capital lease obligations	(305)	(337)	(364)
<b>Net cash provided by financing activities</b>	<b>46,705</b>	<b>25,216</b>	<b>95,768</b>
Effect of exchange rate changes on cash and cash equivalents	(40)	2	(21)
Net increase in cash and cash equivalents	34,450	5,037	26,540
Cash and cash equivalents at the beginning of period	14,238	48,688	53,725
<b>Cash and cash equivalents at the end of period</b>	<b>\$ 48,688</b>	<b>\$ 53,725</b>	<b>\$ 80,265</b>
<b>Supplemental cash flow data:</b>			
Cash paid for interest and income taxes	\$ 71	\$ 171	\$ 1,056
<b>Non-cash investing and financing activities:</b>			
Deemed dividends on common stock	\$ 8,326	\$	\$
Issuance of common stock for the acquisition of Zopim	\$	\$	\$ 10,892
Vesting of early exercised stock options	\$ 62	\$ 860	\$ 1,512
Purchases of property and equipment in accrued expenses	\$	\$ 251	\$ 374
Property and equipment acquired through tenant improvement allowances	\$	\$	\$ 3,932
Issuance of warrant in connection with credit facility	\$ 182	\$	\$
Property and equipment acquired under capital leases	\$ 123	\$	\$
Share-based compensation capitalized in internal-use software costs	\$ 85	\$ 143	\$ 2,476

See Notes to Consolidated Financial Statements.

**Table of Contents**

**ZENDESK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization**

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

Our mission is to help organizations and their customers build better relationships. We are a software development company that provides a software-as-a-service, or SaaS, customer service platform. Our platform helps organizations engage with people in new ways that foster long-term customer loyalty and satisfaction. We empower organizations to better answer customers' questions, and to solve their problems through the channels that people use every day when seeking help, such as email, chat, voice, social media and websites. Our customer service platform also helps people find answers on their own through knowledge bases and communities, capitalizing on the increasing customer preference for self-service. Our customer engagement capabilities allow organizations to proactively serve their customers, reaching out to those who may need help and soliciting feedback about their experience. The openness of our customer service platform makes it easy for organizations to integrate with their other applications. Our customer service platform consolidates the data from customer interactions and provides organizations with powerful analytics and performance benchmarking.

References to Zendesk or we in these notes refer to Zendesk, Inc. and its subsidiaries on a consolidated basis.

**Note 2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles, or GAAP. The consolidated financial statements include the accounts of Zendesk, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated upon consolidation.

***Initial Public Offering***

In May 2014, we completed our initial public offering, or IPO, in which we issued and sold 12.8 million shares of common stock at a public offering price of \$9.00 per share. We received net proceeds of \$103.1 million after deducting underwriting discounts and commissions of \$8.1 million and other offering expenses of \$3.8 million. Upon the closing of our IPO, all shares of our then-outstanding redeemable convertible preferred stock automatically converted into an aggregate of 34.3 million shares of common stock.

***Reclassification***

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

***Use of Estimates***

The preparation of 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.

F-9

**Table of Contents**

**ZENDESK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Significant items subject to such estimates and assumptions include the fair value of our common stock and share-based awards, fair value of purchased intangible assets, goodwill, unrecognized tax benefits, useful lives of purchased intangible assets and property and equipment, and the capitalization and estimated useful life of our capitalized internal-use software.

These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ from those estimates.

***Segment 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 operating segment.

***Revenue Recognition***

We generate substantially all of our revenue from subscription services, which are comprised of subscription fees from customer accounts on our customer service platform and, to a lesser extent, live chat software. Arrangements with customers do not provide the customer with the right to take possession of the software supporting our customer service platform or live chat software at any time, and are therefore accounted for as service contracts. Subscription service arrangements are generally non-cancelable and do not provide for refunds to customers in the event of cancellations or any other right of return. We record revenue net of sales or excise taxes.

We commence revenue recognition when all of the following conditions are met:

There is persuasive evidence of an arrangement;

The service has been or is being provided to the customer;

The collection of the fees is reasonably assured; and

The amount of fees to be paid by the customer is fixed or determinable.

Subscription revenue is recognized on a straight-line basis over the contractual term of the arrangement beginning on the date that our service is made available to the customer. Payments received in advance of services being rendered are recorded as deferred revenue and recognized on a straight-line basis over the requisite service period.

Certain customers have arrangements that provide for a maximum number of users over the contract term, with usage measured monthly. Revenue for these arrangements is recognized ratably over the contract terms. Incremental fees are incurred when the maximum number of users is exceeded, and any incremental fees are recognized as revenue ratably over the remaining contractual term.

We derive an immaterial amount of revenue from implementation, voice, and training services, for which we recognize revenue upon completion.

**Table of Contents**

**ZENDESK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Deferred Revenue***

Deferred revenue consists primarily of customer billings in advance of revenue being recognized. We invoice customers for subscriptions to our customer service platform or live chat software in monthly, quarterly, or annual installments. Deferred revenue that is anticipated to be recognized during the succeeding 12-month period is recorded as current deferred revenue and the remaining portion is recorded as noncurrent deferred revenue. Deferred revenue associated with implementation, voice, and training services was immaterial as of December 31, 2013 and 2014.

***Cost of Revenue***

Cost of revenue consists primarily of personnel costs (including salaries, benefits, and share-based compensation) for employees associated with our platform infrastructure and our product support organizations, data center costs related to hosting our platform, depreciation and other expenses associated with our self-managed colocation data centers, amortization expense associated with capitalized internal-use software, payment processing fees, amortization expense associated with purchased intangible assets, and allocated shared costs.

***Cash, Cash Equivalents, and Restricted Cash***

We consider all highly liquid investments purchased with a remaining maturity of three months or less to be cash equivalents. Cash and cash equivalents are recorded at fair value and consist primarily of bank deposits and money market funds.

There was \$0.2 million in restricted cash as of December 31, 2013 and no restricted cash as of December 31, 2014. As of December 31, 2014, the certificate of deposit pledged as collateral on credit cards had been refunded.

***Marketable Securities***

Marketable securities consist of corporate bonds and auto and credit card asset backed securities. We classify marketable securities as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. All marketable securities are recorded at their estimated fair value. Unrealized gains and losses for available-for-sale securities are recorded in other comprehensive loss. We evaluate our investments to assess whether those with unrealized loss positions are other than temporarily impaired. Impairments are considered other than temporary if they are related to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value determined to be other than temporary are determined based on the specific identification method and are reported in other expense, net in the consolidated statements of operations.

***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. Accounts receivable deemed uncollectable are charged against the allowance for

doubtful accounts when identified.

F-11

**Table of Contents****ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The allowance for doubtful accounts consists of the following activity (in thousands):

	<b>Year Ended December 31,</b>	
	<b>2013</b>	<b>2014</b>
Allowance for doubtful accounts, beginning balance	\$ 173	\$ 282
Additions	301	843
Write-offs	(192)	(861)
Allowance for doubtful accounts, ending balance	\$ 282	\$ 264

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of assets. Maintenance and repair costs are charged to expense as incurred. The estimated useful lives of our property and equipment are as follows:

Furniture and fixtures	5 years
Hosting equipment	3 years
Computer equipment and software	3 years
Leasehold improvements	Shorter of the lease term or estimated useful life

Depreciation expense of assets acquired through capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations.

***Fair Value Measurements***

We measure certain financial assets at fair value using a fair value hierarchy. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs that are supported by little or no market activity.

Our marketable securities are classified in either Level 1 or Level 2 and we have no financial assets or liabilities measured using Level 3 inputs. The fair value of our Level 1 financial assets is based on quoted market prices of the identical underlying security. The fair value of our Level 2 financial assets is based on inputs that are directly or

indirectly observable in the market, including readily available pricing sources for identical underlying securities that may not be actively traded.

For certain other financial instruments, including accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their fair value due to the relatively short maturity of these balances. Based on borrowing rates available to us for loans with similar terms and maturities, the carrying value of borrowings approximates fair value or Level 2 within the fair value hierarchy.

---

**Table of Contents****ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*****Capitalized Internal-Use Software Costs***

We capitalize certain development costs incurred in connection with software development for our platform and software used in operations. Costs incurred in the preliminary stages of development are expensed as incurred. Once software has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs are recorded as part of property and equipment. Maintenance and training costs are expensed as incurred.

Capitalized internal-use software is amortized on a straight-line basis over its estimated useful life and recorded in cost of revenue within the accompanying consolidated statements of operations. The weighted-average useful life of our capitalized internal-use software was 3.2 years as of December 31, 2014.

***Business Combination***

When we acquire businesses, we allocate the purchase price to the net tangible and identifiable intangible assets. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable.

***Goodwill, Purchased Intangible Assets, and Impairment Assessment of Long-Lived Assets***

***Goodwill.*** Goodwill represents the excess purchase consideration of an acquired business over the fair value of the net tangible and identifiable intangible assets. Goodwill is evaluated for impairment annually in the third quarter, and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate or a significant decrease in expected cash flows. No impairment charges were recorded during the year ended December 31, 2014. No goodwill was recorded prior to December 31, 2013.

***Purchased Intangible Assets.*** Purchased intangible assets consist of identifiable intangible assets, primarily developed technology and customer relationships, resulting from our acquisition. Intangible assets are recorded at fair value on the date of acquisition and amortized over their estimated economic lives following the pattern in which the economic benefits of the assets will be consumed, generally straight-line.

***Impairment of Long-Lived Assets.*** The carrying amounts of our long-lived assets, including property and equipment, capitalized internal-use software, and purchased intangible assets, are reviewed periodically for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than originally estimated. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future undiscounted net cash flows the asset is expected to generate over its



remaining life. If the asset is considered to be impaired, the amount of any impairment is measured as

F-13

---

**Table of Contents**

**ZENDESK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

the difference between the carrying value and the fair value of the impaired asset. If the useful life is shorter than originally estimated, we amortize the remaining carrying value over the new shorter useful life. No impairment of any long-lived assets was identified for the years ended December 31, 2013 and 2014.

***Share Based Compensation***

Share-based compensation expense to employees is measured based on the fair value of the awards on the grant date and recognized in our consolidated statements of operations over the period during which the employee is required to perform services in exchange for the award (generally the vesting period of the award). We estimate the fair value of stock options granted using the Black-Scholes option valuation model. We measure the fair value of restricted stock units based on the fair value of the underlying shares on the date of grant. Compensation expense for awards with only service conditions is recognized over the vesting period of the applicable award using the straight-line method.

All restricted stock units and certain options granted to employees prior to our IPO vest upon the satisfaction of both a service condition and a performance condition. These restricted stock units and stock options with both a service condition and performance condition are collectively referred to as *Performance Awards* in the following discussion. The service condition for substantially all of these awards is satisfied over four years. The performance condition was satisfied upon the occurrence of a qualifying liquidity event which occurred upon the effectiveness of the registration statement related to our IPO. No share-based compensation expense was recognized for the *Performance Awards* prior to our IPO as the performance condition had not been deemed probable to have been met. Upon the satisfaction of the performance condition, we recognized a cumulative share-based compensation expense for the portion of the *Performance Awards* that had met the service condition. For the year ended December 31, 2014, share-based compensation expense related to the *Performance Awards* recognized was \$12.7 million, using the accelerated attribution method. The remaining unrecognized share-based compensation expense related to the *Performance Awards* will be recorded over the remaining requisite service period using the accelerated attribution method, net of estimated forfeitures.

As of December 31 2014, we had a total of \$74.5 million in future period share-based compensation expense related to all equity awards, net of estimated forfeitures, to be recognized over a weighted average period of 3.5 years.

***Advertising Expense***

Advertising is expensed as incurred. For the years ended December 31, 2012, 2013, and 2014, advertising expense was \$3.5 million, \$6.5 million, and \$12.7 million, respectively.

***Income Taxes***

We record income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized.



---

**Table of Contents**

**ZENDESK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

We recognize tax benefits from uncertain tax positions if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. Although we believe that we have adequately reserved for our uncertain tax positions, we can provide no assurance that the final tax outcome of these matters will not be materially different. We make adjustments to these reserves when facts and circumstances change, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and results of operations.

We have elected to record interest accrued and penalties related to unrecognized tax benefits in the financial statements as a component of provision for income taxes.

***Foreign Currency***

The functional currency of our foreign subsidiaries, with the exception of our Singapore subsidiary, is the U.S. dollar. Accordingly, monetary balance sheet accounts are remeasured using exchange rates in effect at the balance sheet dates and non-monetary items are remeasured at historical exchange rates. Expenses are generally remeasured at the average exchange rates for the period. Foreign currency remeasurement and transaction gains and losses are included in other expense, net on the statements of operations and were not material for the periods presented. The functional currency of our Singapore subsidiary is the Singapore dollar. Assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet dates. Revenue and expenses are translated at the average exchange rates for the period. Amounts classified in stockholders' equity (deficit) are translated at historical exchange rates.

***Concentrations of Risk***

Financial instruments potentially exposing us to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, marketable securities and accounts receivable. We place our cash and cash equivalents with high-credit-quality financial institutions. However, we maintain balances in excess of the FDIC insurance limits. We do not require our customers to provide collateral to support accounts receivable and maintain an allowance for doubtful accounts receivable balances.

At December 31, 2013 and 2014, there were no customers that represented more than 10% of the accounts receivable balance. There were no customers that individually exceeded 10% of our revenue in any of the periods presented.

***Recently Issued Accounting Standards***

In February 2013, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update No. 2013-02 *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires an entity to disaggregate the total change of each component of other comprehensive income either on the face of the statement of operations or as a separate disclosure in the notes. The guidance became effective for reporting periods beginning after December 15, 2012 and is applied prospectively. We adopted this standard for the year ended December 31, 2013, and the adoption did not have any impact on our financial position, results of operations, or cash

flows, as the amounts reclassified out of accumulated other comprehensive loss are not significant.

F-15

Table of Contents**ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In July 2013, the FASB issued Accounting Standards Update No. 2013-11 *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*, or ASU 2013-11, which provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss, or NOL, carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 supports the approach for companies to present an unrecognized tax benefit as a reduction of a deferred tax asset for a NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This approach requires companies to assess whether to net the unrecognized tax benefit with a deferred tax asset as of the reporting date. We adopted this standard for the year ended December 31, 2014, and the adoption did not have a material effect on our financial position, results of operations, or cash flows.

On May 28, 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-09 regarding ASC Topic 606 *Revenue from Contracts with Customers*. This ASU provides principles for recognizing revenue for the transfer of promised goods or services to customers with the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU will be effective for our fiscal year beginning January 1, 2017. Early adoption is not permitted. We are currently evaluating the accounting, transition, and disclosure requirements of the standard and cannot currently estimate the financial statement impact of adoption.

**Note 3. Acquisition of Zopim Technologies**

On March 21, 2014, we completed the acquisition of Zopim Technologies Pte Ltd., or Zopim, a software development company that provides a SaaS live chat service. During the three months ended December 31, 2014, we finalized our purchase accounting after adjustments were made to the preliminary purchase price allocation. The total adjusted acquisition date fair value of consideration transferred was \$15.8 million (\$4.9 million of cash and \$10.9 million of our common stock), which included \$1.1 million of cash and \$2.4 million of common stock consideration held back between 12 and 18 months as partial security for standard indemnification obligations. The total adjusted purchase price was allocated to assets acquired and liabilities assumed as set forth below (in thousands). The excess of the purchase price over the net assets acquired was recorded as goodwill. Goodwill generated from the acquisition is attributable to expected synergies from future growth and potential future monetization opportunities, and is not deductible for tax purpose.

Net tangible liabilities assumed	\$ (385)
Intangible assets	6,560
Goodwill	9,594
 Total purchase price	 \$ 15,769

In connection with the acquisition, we also established a retention plan pursuant to which we issued restricted stock units for 0.9 million shares of our common stock, which vest in three annual installments from the date of acquisition. In addition, we agreed to pay cash in an aggregate amount of \$3.0 million in two annual installments from the date of

acquisition to Zopim employees in connection with their continued employment, which is recorded as compensation expense over the associated service periods of such employees.

Pro forma revenue and results of operations have not been presented because the historical results of Zopim were not material to our consolidated financial statements in any period presented.

F-16

Table of Contents**ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 4. Fair Value Measurements**

The following tables present information about our financial assets measured at fair value on a recurring basis as of December 31, 2013 and 2014 based on the three-tier fair value hierarchy (in thousands):

<b>Description</b>	<b>Fair Value Measurement at December 31, 2013</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Corporate bonds	\$	\$ 12,114	\$ 12,114
Money market funds	10,836		10,836
<b>Total</b>	<b>\$ 10,836</b>	<b>\$ 12,114</b>	<b>\$ 22,950</b>
Included in cash and cash equivalents			\$ 10,836
Included in marketable securities			\$ 12,114

<b>Description</b>	<b>Fair Value Measurement at December 31, 2014</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Corporate bonds	\$	\$ 40,345	\$ 40,345
Money market funds	21,382		21,382
Asset-backed securities		5,080	5,080
Commercial paper		3,993	3,993
U.S. treasury securities		1,991	1,991
<b>Total</b>	<b>\$ 21,382</b>	<b>\$ 51,409</b>	<b>\$ 72,791</b>
Included in cash and cash equivalents			\$ 21,382
Included in marketable securities			\$ 51,409

There were no transfers between fair value measurement levels during the years ended December 31, 2013 or 2014.

Gross unrealized gains or losses for cash equivalent and marketable securities as of December 31, 2013 and 2014 were not material. As of December 31, 2013 and 2014, there were no securities that were in an unrealized loss position for



more than twelve months.

The following table classifies our marketable securities by contractual maturities as of December 31, 2013 and 2014 (in thousands):

	<b>December 31, 2013</b>	<b>December 31, 2014</b>
Due in one year	\$ 9,889	\$ 42,204
Due in one to five years	2,225	9,205
<b>Total</b>	<b>\$ 12,114</b>	<b>\$ 51,409</b>

F-17

Table of Contents**ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 5. Property and Equipment**

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

	<b>December 31,</b>	
	<b>2013</b>	<b>2014</b>
Capitalized internal-use software	\$ 11,104	\$ 18,541
Furniture and fixtures	1,383	4,524
Hosting equipment	7,931	14,085
Computer equipment and software	1,680	4,310
Leasehold improvements	1,717	15,144
Construction in progress	341	3,546
<b>Total</b>	<b>24,156</b>	<b>60,150</b>
Less accumulated depreciation and amortization	(8,725)	(18,255)
<b>Property and equipment, net</b>	<b>\$ 15,431</b>	<b>\$ 41,895</b>

Depreciation expense was \$1.1 million, \$2.9 million, and \$6.1 million for the years ended December 31, 2012, 2013, and 2014, respectively. We capitalized \$3.6 million, \$4.8 million, and \$10.5 million in costs associated with internal-use software during the years ended December 31, 2012, 2013, and 2014, respectively. Included in the capitalized internal-use software costs are \$0.1 million, \$0.1 million, and \$2.5 million in share-based compensation costs for the years ended December 31, 2012, 2013, and 2014, respectively. Amortization expense of capitalized internal-use software totaled \$1.4 million, \$2.3 million, and \$3.8 million during the years ended December 31, 2012, 2013, and 2014, respectively. The carrying value of capitalized internal-use software at December 31, 2013 and 2014 was \$6.8 million and \$13.6 million, respectively, including \$0.3 million and \$3.5 million in construction in progress, respectively.

**Note 6. Goodwill and Purchased Intangibles Assets**

The changes in the carrying amount of goodwill for the year ended December 31, 2014 are as follows (in thousands):

Balance as of December 31, 2013	\$
Goodwill acquired	9,373
Goodwill adjustments	221
Foreign currency translation adjustments	(354)
<b>Balance as of December 31, 2014</b>	<b>\$ 9,240</b>

F-18

Table of Contents**ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Purchased intangible assets related to the Zopim acquisition subject to amortization as of December 31, 2014 consist of the following (in thousands). No purchased intangible assets were recorded as of December 31, 2013.

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Foreign Currency Translation Adjustments</b>	<b>Net</b>	<b>Remaining Useful Life (In years)</b>
Developed technology	\$ 5,200	\$ (1,118)	\$ (191)	\$ 3,891	2.7
Customer relationships	1,300	(244)	(48)	1,008	3.2
Trade name	60	(45)	(2)	13	0.2
	\$ 6,560	\$ (1,407)	\$ (241)	\$ 4,912	

Amortization expense of purchased intangible assets related to the Zopim acquisition for the year ended December 31, 2014 was \$1.4 million. No amortization expense was recorded for the year ended December 31, 2013.

Estimated future amortization expense as of December 31, 2014 is as follows (in thousands):

2015	\$ 1,757
2016	1,744
2017	1,342
2018	69
	\$ 4,912

**Note 7. Credit Facility**

We have a credit facility with Silicon Valley Bank consisting of a \$20.0 million revolving line of credit and a \$10.0 million equipment line of credit. As of December 31, 2013, outstanding balance under the revolving line of credit was \$20.0 million. In June 2014 we repaid all outstanding principal and accrued interest under the revolving line of credit and as of December 31, 2014 there was no balance outstanding. As of December 31, 2013 and 2014, outstanding balance under the equipment line of credit was \$3.8 million and \$7.0 million, respectively.

Prior to our IPO, borrowings on the revolving line of credit bore interest at the Prime Rate plus 2.0% per annum. Upon the consummation of our IPO, the interest rate was reduced to the Prime Rate. Borrowings on the revolving line of credit are subject to a borrowing base limit determined monthly based on our recurring revenue metrics from

previous months and the ratio of certain current assets to current liabilities as of the previous month end. To the extent we borrow funds on the revolving line of credit, we are entitled to make interest-only payments until January 1, 2016, when the outstanding balance is due in full.

Borrowings on the equipment line of credit bear interest of 2.5% per annum. For each equipment advance, we were entitled to make interest-only payments until September 14, 2014, when the last draw against the equipment line of credit could be made. The outstanding balance as of September 14, 2014 is payable in 30 equal monthly installments, with the last payment due on March 14, 2017. We are also required to make a final payment fee of \$0.3 million on March 14, 2017.

**Table of Contents****ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The credit facility is collateralized by substantially all of our assets, excluding our intellectual property. Our domestic subsidiary is a guarantor of the credit facility and we have pledged up to 65% of the equity in our international subsidiaries as collateral. The credit facility also imposes various covenants on us, including the delivery of financial and other information, the maintenance of our primary operating and securities accounts with the lender, the maintenance of minimum revenue targets and an agreed ratio of certain current assets to current liabilities, as well as limitations on dispositions, changes in business or management, certain mergers or consolidations, dividends and other corporate activities. As of December 31, 2013 and 2014, we were in compliance with all of the covenants contained in the credit facility.

Contractual future principal repayments in relation to the credit facility are as follows for the year ending December 31 (in thousands):

2015	\$ 3,041
2016	3,118
2017	793
	\$ 6,952

In June 2012, in connection with the credit facility, we issued a non-refundable, fully earned warrant to Silicon Valley Bank to purchase 125,000 shares of common stock at \$1.92 per share with an expiration date of June 2019. The fair value of the warrant on issuance is being accreted to interest expense using the effective interest rate method over the life of the credit facility. This warrant was exercised in the three months ended June 30, 2014.

**Note 8. Commitments and Contingencies*****Leases***

We lease office space under noncancelable operating leases with various expiration dates. Certain of the office space lease agreements contain rent holidays or rent escalation provisions. Rent holiday and rent escalation provisions are considered in determining the straight-line expense to be recorded over the lease term. The lease term begins on the date of initial possession of the leased property for purposes of recognizing lease expense on a straight-line basis over the term of the lease. In 2013, we renewed the lease of our office in San Francisco through October 2019, with an option to renew for an additional 7 years and 8 months. We also entered into a lease for additional office space in San Francisco with an 8-year term, renewable for an additional period of 5 years. For the years ended December 31, 2012, 2013, and 2014, rent expense was \$1.6 million, \$2.3 million, and \$6.8 million, respectively.

We lease computer equipment from various parties under capital lease agreements that expire through March 2015. The total outstanding balance financed under capital leases was \$0.4 million at December 31, 2013 and immaterial at December 31, 2014. Accumulated depreciation on the leased assets was \$0.7 million and \$1.0 million at December 31, 2013 and 2014, respectively. Depreciation of assets recorded under capital leases is included in

depreciation expense.

F-20

**Table of Contents****ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of December 31, 2014, the future minimum lease payments by year under noncancelable leases are as follows for the year ending December 31 (in thousands):

2015	\$ 7,025
2016	7,067
2017	6,935
2018	6,936
2019	6,672
Thereafter	12,707
<b>Total minimum lease payments</b>	<b>\$ 47,342</b>

***Letters of Credit***

As of December 31, 2013 and 2014, we had a total of \$3.8 million and \$3.7 million, respectively, in letters of credit outstanding primarily related to our leased office space in San Francisco. The letters of credit are collateralized by substantially all of our assets, excluding our intellectual property. These letters of credit renew annually and mature at various dates through October 31, 2022.

***Litigation and Loss Contingencies***

We accrue estimates for resolution of legal and other contingencies when losses are probable and estimable. From time to time, we may become a party to litigation and subject to claims incident to the ordinary course of business, including intellectual property claims, labor and employment claims, and threatened claims, breach of contract claims, tax, and other matters. We currently have no material pending litigation.

We are not currently aware of any litigation matters or loss contingencies that would be expected to have a material adverse effect on our business, consolidated financial position, 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 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 customer service platform, live chat software, 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 the accompanying consolidated financial statements, as a result of these obligations.

We have entered into service-level agreements with certain customers warranting defined levels of uptime reliability and performance and permitting those customers to receive credits for future

**Table of Contents**

**ZENDESK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

services in the event that we fail to meet those levels. To date, we have not experienced any significant failures to meet the defined levels of reliability and performance warranted by those agreements and, as a result, we have not accrued any liabilities related to these agreements in the accompanying consolidated financial statements.

**Note 9. Common Stock and Stockholders Equity (Deficit)**

***Convertible Preferred Stock***

Upon the completion of our IPO, all outstanding convertible preferred stock was converted into 34.3 million shares of common stock.

***Reverse Stock Split***

In April 2014, our board of directors and stockholders approved a one-for-two reverse stock split of our common stock. All share and per share information throughout the consolidated financial statements and notes to the consolidated financial statements have been retroactively adjusted to reflect this reverse stock split.

***Common Stock Authorized***

At December 31, 2013, there were 80.0 million and 30.0 million shares authorized for Series A and Series B common stock, respectively, and there were 9.9 million and 13.3 million shares outstanding of Series A and Series B common stock, respectively, of which 0.8 million shares of Series B common stock were unvested resulting from employees exercising stock options prior to vesting. Upon the completion of our IPO, each share of Series B common stock was converted into Series A common stock on a one-for-one basis, and the Series A common stock was redesignated as common stock. In addition, we increased the amount of common stock authorized for issuance to 400.0 million common shares with a par value of \$0.01 per share.

***Employee Equity Plans***

***Employee Stock Purchase Plan***

Our board of directors adopted the Employee Stock Purchase Plan, or ESPP, in February 2014, which became effective in May 2014 upon the effectiveness of the registration statement related to our IPO. The ESPP initially reserved and authorized the issuance of up to 3.6 million shares of common stock. The ESPP provides that the number of shares reserved and available for issuance under the plan automatically increases each January, beginning on January 1, 2015, by the lesser of 1.5 million shares, 1% of the number of shares issued and outstanding on the immediately preceding December 31, or such lesser number of shares as determined by our compensation committee.

Under the ESPP, eligible employees are granted options to purchase shares of our common stock through payroll deductions. The ESPP provides for eighteen-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. We commenced our first purchase period under the ESPP on May 15, 2014. For the year ended December 31, 2014, 0.4 million shares of common stock were purchased under the ESPP at \$7.65 per share, resulting in cash proceeds of \$3.3 million. As of December 31, 2014, 3.2 million shares of common stock were available for issuance under the ESPP.



Edgar Filing: Zendesk, Inc. - Form 424B4

Outstanding December 31, 2014	7,560	12,043	\$ 7.39	8.29	\$ 204,467	3,064	\$ 13.69
Options vested and expected to vest as of December 31, 2014		10,742	\$ 7.07	8.21	\$ 185,866		
Options vested and exercisable as of December 31, 2014		4,293	\$ 3.87	7.34	\$ 88,025		

F-23

---

**Table of Contents**

**ZENDESK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The total intrinsic value of stock options exercised during the years ended December 31, 2012, 2013, 2014 was \$1.8 million, \$4.6 million, and \$66.2 million, respectively. Aggregate 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 years ended December 31, 2012, 2013, and 2014 was \$0.56, \$1.62, and \$7.22, respectively.

Aggregate intrinsic value for options outstanding represents the difference between the closing stock price of our common stock and the exercise price of outstanding, in-the-money options. Zendesk's closing stock price as reported on the New York Stock Exchange, or NYSE as of December 31, 2014 was \$24.37.

***Share-Based Compensation Expense***

All share-based awards to employees and members of our board of directors are measured based on the grant date fair value of the awards and recognized in the consolidated statements of operations over the period during which the employee is required to perform services in exchange for the award (generally the vesting period of the award). We record share-based compensation expense for service-based equity awards using the straight-line attribution method. We record share-based compensation expense for performance-based equity awards using the accelerated attribution method.

We estimate the fair value of stock options granted using the Black-Scholes option valuation model, which requires assumptions, including the fair value of our underlying common stock, expected term, expected volatility, risk-free interest rate and dividend yield of our common stock. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our share-based compensation expense could be materially different in the future.

These assumptions are estimated as follows:

*Fair Value of Common Stock.* Prior to our IPO in May 2014, our board of directors, with input from management, exercised significant judgment and considered numerous objective and subjective factors to determine the fair value of our common stock as of the date of each option grant. These factors included, but were not limited to: (A) contemporaneous valuations performed by unrelated third-party specialists, (B) rights, preferences, and privileges of our redeemable convertible preferred stock relative to those of our common stock, (C) actual operating and financial performance, (D) relevant precedent transactions involving our capital stock, (E) likelihood of achieving a liquidity event, such as an initial public offering or a sale of our company given prevailing market conditions and the nature and history of our business, (F) market multiples of comparable companies in our industry, (G) stage of development, (H) industry information such as market size and growth, (I) illiquidity of share-based awards involving securities in a private company, and (J) macroeconomic conditions.

Since our IPO, we have used the market closing price for our common stock as reported on the NYSE.

*Expected Term.* We determine the expected term based on the average period the stock options are expected to remain outstanding generally calculated as the midpoint of the stock options vesting term and contractual expiration period, as we do not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior.

F-24

Table of Contents**ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Expected Volatility.* We determine the price volatility factor based on the historical volatility of publicly traded industry peers. To determine our peer group of companies, we consider public companies in the technology industry and select those that are similar to us in size, stage of life cycle, and financial leverage. We do not rely on implied volatilities of traded options in our industry peers' common stock because the volume of activity is relatively low. We intend to continue to consistently apply this methodology using the same or similar public companies until a sufficient amount of historical information regarding the volatility of our own common stock price becomes available, or unless circumstances change such that the identified companies are no longer similar to us, in which case, more suitable companies whose share prices are publicly available would be utilized in the calculation.

*Risk-Free Interest Rate.* We base the risk-free interest rate used in the Black-Scholes valuation model on the yield available on U.S. Treasury zero-coupon issues with an equivalent remaining term of the stock options for each stock option group.

*Dividend Yield.* We have not paid and do not anticipate paying any cash dividends in the foreseeable future and, therefore, use an expected dividend yield of zero.

The assumptions used to estimate the fair value of stock options granted to employees are as follows:

	Year Ended December 31,					
	2012		2013		2014	
Expected volatility	57%	59%	50%	63%	54%	56%
Dividend rate	0%		0%		0%	
Risk-free interest rate	0.68%	1.47%	0.63%	2.02%	1.75%	2.02%
Expected term (in years)	5.28	6.27	4.47	6.27	6.02	6.50

The assumptions used to estimate the fair value of ESPP awards are as follows:

	Year Ended December 31, 2014	
Expected volatility	45%	49%
Dividend rate	0%	
Risk-free interest rate	0.05%	0.35%
Expected term (in years)	0.50	1.5

In addition to the assumptions used in the Black-Scholes option valuation model, we must also estimate a forfeiture rate to calculate the share-based compensation expense for our awards. Our forfeiture rate is based on an analysis of our actual forfeitures. We will continue to evaluate the appropriateness of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover, and other factors. Changes in the estimated forfeiture rate can have a



significant impact on our share-based compensation expense as the cumulative effect of adjusting the rate is recognized in the period the forfeiture estimate is changed. If a revised forfeiture rate is higher than the previously estimated forfeiture rate, an adjustment is made that will result in a decrease to the share-based compensation expense recognized in our financial statements. If a revised forfeiture rate is lower than the previously estimated forfeiture rate, an adjustment is made that will result in an increase to the share-based compensation expense recognized in our financial statements.

We will continue to use judgment in evaluating the expected volatility, expected term, and forfeiture rate utilized in our share-based compensation expense calculations on a prospective basis.

---

**Table of Contents**

**ZENDESK, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As we continue to accumulate additional data related to our common stock, we may refine our estimates of expected volatility, expected term, and forfeiture rates, which could materially impact our future share-based compensation expense.

In the years ended December 31, 2013 and 2014 we recorded \$1.7 million and \$4.3 million share-based compensation expense related to the accelerated vesting of certain stock options resulting from employee terminations, respectively. No such expense was recorded in the year ended December 31, 2012.

In September 2012, in connection with our sale of the Series D redeemable convertible preferred stock, the purchasers of the Series D redeemable convertible preferred stock conducted a tender offer to acquire approximately 4.0 million shares of common stock from employees, former employees, and other existing investors. In connection with the tender offer, we waived any rights of first refusal or other transfer restrictions applicable to such shares. The shares were repurchased from the stockholders at a purchase price of \$9.62 per share. As a result of this transaction, we recorded a total of \$8.6 million in share-based compensation expense in the year ended December 31, 2012 for the difference between the price paid for shares held by our employees and former employee stockholders and the estimated fair market value on the date of the transaction. Of the total share-based compensation expense, we recorded \$20,000, \$3.9 million, \$1.0 million, and \$3.7 million in cost of revenue, research and development, sales and marketing, and general and administrative expenses, respectively.

In connection with the tender offer, we recorded \$8.3 million in deemed dividends, within additional paid-in capital, for the difference between the price paid for shares held by stockholders that were not employees or former employees and the estimated fair market value on the date of the transaction.

***Early Exercise of Stock Options and Purchase of Unvested Stock Awards***

Common stock purchased pursuant to an early exercise of stock options or unvested stock awards is not deemed to be outstanding for financial reporting purposes until those shares vest. Therefore, cash received in exchange for unvested shares is recorded as a liability and is transferred into common stock and additional paid-in capital as the shares vest. Upon termination of service, we may, at our discretion, repurchase unvested shares acquired through early exercise of stock options or purchase of unvested stock awards at a price equal to the price per share paid upon the exercise of such options or the purchase of such unvested stock awards. As of December 31, 2013 and 2014 there were 0.8 million and 0.6 million shares outstanding as a result of early exercise of stock options and purchase of unvested stock awards by our employees and directors that were classified as accrued liabilities for an aggregated amount of \$1.4 million and \$2.1 million, respectively.

***Treasury Stock***

We repurchased 0.5 million shares of common stock in the year ended December 31, 2011 and recorded the repurchased shares as treasury shares in the stockholders' equity (deficit) section of the balance sheet at cost.

**Note 10. Net Loss Per Share**

We compute net loss per share of common stock in conformity with the two-class method required for participating securities. We consider all series of the redeemable convertible preferred

F-26

Table of Contents**ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

stock to be participating securities as the holders of the preferred stock are entitled to receive a non-cumulative dividend on a *pari passu* basis in the event that a dividend is paid on common stock. We also consider shares of common stock issued upon the early exercise of stock awards subject to repurchase to be participating securities, because holders of such shares have non-forfeitable dividend rights in the event a dividend is paid on common stock. The holders of all series of the redeemable convertible preferred stock and the holders of shares of common stock acquired upon early exercise of stock options do not have a contractual obligation to share in our losses. As such, our net losses for the years ended December 31, 2012, 2013 and 2014 were not allocated to these participating securities. Upon the closing of our IPO in May 2014, all shares of our then-outstanding redeemable convertible preferred stock automatically converted into our common stock.

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period, less the weighted-average unvested common stock subject to repurchase. Diluted net loss per share is computed by giving effect to all potential shares of common stock, including common stock issuable upon conversion of the redeemable convertible preferred stock, outstanding share-based awards, and outstanding warrant, to the extent dilutive. Basic and diluted net loss per share was 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):

	Year Ended December 31,				2014
	2012		2013		
	Class A	Class B	Class A	Class B	
Net loss	\$ (12,104)	\$ (12,261)	\$ (10,290)	\$ (12,281)	\$ (67,415)
Less: Accretion of redeemable convertible preferred stock	(25)	(25)	(22)	(27)	(18)
Less: Deemed dividend to investors in relation to the tender offer	(4,136)	(4,190)			
Net loss attributable to common stockholders	\$ (16,265)	\$ (16,476)	\$ (10,312)	\$ (12,308)	\$ (67,433)
Basic shares:					
Weighted-average common shares outstanding	9,881	12,153	9,881	12,964	54,383
Less: Weighted-average common shares subject to repurchase	(130)	(2,275)		(1,171)	(812)
Weighted-average common shares used to compute basic net loss per share	9,751	9,878	9,881	11,793	53,571

Diluted shares:

Weighted-average common shares used to compute diluted net loss per share	9,751	9,878	9,881	11,793	53,571
---	-------	-------	-------	--------	--------

Net loss per share attributable to common stockholders:

Basic and diluted	\$ (1.67)	\$ (1.67)	\$ (1.04)	\$ (1.04)	\$ (1.26)
-------------------	-----------	-----------	-----------	-----------	-----------

F-27

**Table of Contents****ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

	As of December 31,		
	2012	2013	2014
Redeemable convertible preferred stock	34,323	34,323	
Shares subject to outstanding common stock options	7,781	10,134	12,043
Shares subject to common stock warrants	125	125	
Restricted stock units		811	3,064
	42,229	45,393	15,107

**Note 11. Income Taxes**

The components of loss before provision for income taxes are as follows (in thousands):

	Year Ended December 31,		
	2012	2013	2014
U.S.	\$ (24,739)	\$ (23,117)	\$ (66,755)
Foreign	495	767	(923)
Total	\$ (24,244)	\$ (22,350)	\$ (67,678)

The income tax provision is composed of the following (in thousands):

	Year Ended December 31,		
	2012	2013	2014
Current tax provision			
Federal	\$	\$	\$ 2
State	2	37	1
Foreign	126	189	567
	128	226	570
Deferred tax provision:			
Federal			
State			

Foreign	(7)	(5)	(833)
Total provision for (benefit from) income taxes	\$ 121	\$ 221	\$ (263)

F-28

**Table of Contents****ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Significant components of deferred tax assets are as follows (in thousands):

	<b>As of December 31,</b>	
	<b>2013</b>	<b>2014</b>
Deferred tax assets:		
Tax credit carryforward	\$ 15	\$ 197
Net operating loss carryforward	19,278	33,878
Share-based compensation	771	5,311
Accrued liabilities and reserves	1,316	3,710
Other	677	600
<b>Total deferred tax assets</b>	<b>22,057</b>	<b>43,696</b>
Less: valuation allowance	(19,837)	(39,496)
<b>Deferred tax assets, net of valuation allowance</b>	<b>2,220</b>	<b>4,200</b>
Deferred tax liabilities:		
Depreciation and amortization	(2,207)	(4,597)
<b>Net deferred tax assets (liabilities)</b>	<b>\$ 13</b>	<b>\$ (397)</b>

The following is a reconciliation of the statutory federal income tax rate and the effective tax rates:

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Tax at federal statutory rate	34.0%	34.0%	34.0%
State tax provision, net of federal benefit		(0.2)	
Share-based compensation	(11.1)	(4.4)	(5.5)
Valuation allowance	(23.3)	(30.4)	(27.9)
Other	(0.1)		(0.2)
<b>Effective tax rate</b>	<b>(0.5)%</b>	<b>(1.0)%</b>	<b>0.4%</b>

We have not provided U.S. income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of December 31, 2014 because we intend to permanently reinvest such earnings outside of the U.S. If these foreign earnings were to be repatriated in the future, the related U.S. tax liability may be reduced by any foreign income taxes previously paid on these earnings. As of December 31, 2014, the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately \$2.4 million. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable.



As of December 31, 2014, we had net operating loss carryforwards of approximately \$133.0 million for federal income taxes and \$47.5 million for state income taxes. If not utilized, these carryforwards will begin to expire in 2029 for federal purposes and 2031 for state purposes.

We account for income taxes under an asset and liability approach. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for income tax reporting purposes, net operating loss carryforwards, and other tax credits measured by applying currently enacted tax laws.

As of December 31, 2014, we had research and development credit carryforwards of approximately, \$2.5 million and \$2.7 million for federal and state income taxes, respectively. If not

Table of Contents**ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

utilized, the federal carryforwards will begin to expire in 2029. The state tax credit can be carried forward indefinitely.

A share option exercise may result in a tax deduction prior to the actual recognition of the related excess tax benefit because we have a net operating loss carryforward. Our net operating losses include \$40.9 million of excess stock option benefits that will be creditable to additional paid in capital when realized.

Internal Revenue Code Section 382 limits the use of net operating loss and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. In the event that we had a change of ownership, utilization of the net operating loss and tax credit carryforwards may be restricted.

A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and penalties) is as follows (in thousands):

Balance at December 31, 2012	\$ 1,939
Additions for tax positions related to the prior year	
Additions for tax positions related to the current year	1,978
Lapse of statutes of limitations	
Balance at December 31, 2013	3,917
Additions for tax positions related to the prior year	(32)
Additions for tax positions related to the current year	2,070
Lapse of statutes of limitations	
Balance at December 31, 2014	\$ 5,955

As of December 31, 2014, we had \$0.3 million of interest and penalties related to the uncertain tax positions. We have elected to record interest and penalties in the financial statements as a component of income taxes. Included in the balance of unrecognized tax benefits at December 31, 2013 and 2014 are potential benefits of \$0.5 million and \$0.9 million, respectively, which if recognized, would affect the effective tax rate.

We are currently unaware of any uncertain tax positions that could result in significant additional payments, accruals, or other material deviation in this estimate over the next 12 months.

Our 2009-2013 tax years remain subject to examination by the taxing authorities for U.S. federal, state, and foreign tax purposes.

Table of Contents**ZENDESK, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Note 12. Geographic Information*****Revenue***

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

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
United States	\$ 22,445	\$ 42,415	\$ 72,217
EMEA	10,257	19,125	35,856
Other	5,526	10,505	18,976
Total	\$ 38,228	\$ 72,045	\$ 127,049

***Long-Lived Assets***

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

	<b>December 31,</b>	
	<b>2013</b>	<b>2014</b>
United States	\$ 6,466	\$ 22,817
EMEA	2,054	4,373
Other	135	1,096
Total	\$ 8,655	\$ 28,286

The carrying value of capitalized internal-use software is excluded from the balance of long-lived assets presented in the table above.

**Note 13. Retirement Plans**

We have a 401(k) retirement and savings plan made available to all United States employees. The 401(k) plan allows each participant to contribute up to an amount not to exceed an annual statutory maximum. We may, at our discretion, make matching contributions to the 401(k) plan. We are responsible for the administrative costs of the 401(k) plan. We have not made any contributions to the 401(k) plan since inception.

**Note 14. Subsequent Events**

In January 2015, we changed the time-off policy for U.S. employees. Under the new policy, salaried employees no longer accrue paid time off and a one-time payment of \$2.4 million was made in January 2015 to U.S. salaried employees for the amount accrued as of such date.

**Table of Contents**

**Table of Contents**

