

Zendesk, Inc.  
Form 10-Q  
November 05, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from      to

Commission File Number: 001-36456

ZENDESK, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	26-4411091
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1019 Market Street	94103
San Francisco, CA	
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer
Non-accelerated filer <input type="checkbox"/> (do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

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

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Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 31, 2018, there were 107,041,554 shares of the registrant's common stock outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- 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 products, and our ability to optimize the pricing for such products;
- the evolution of technology affecting our products, 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;
- worldwide economic conditions and their impact on information technology spending;
- our ability to effectively manage our growth and future expenses;
- our ability to introduce and market new products and to integrate such products into our infrastructure;
- 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;
- our ability to securely maintain customer data;
- our ability to service the interest on our convertible notes and repay such notes, if required;
- our ability to successfully integrate people, products, technology and services following completion of acquisitions;
- our ability to maintain and enhance our brand; and
- the increased expenses and administrative workload associated with being a public company.

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

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

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

impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## ZENDESK, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value and shares)

	September 30, 2018  (Unaudited)	December 31, 2017  * As adjusted
Assets		
Current assets:		
Cash and cash equivalents	\$ 157,158	\$ 109,370
Marketable securities	293,598	137,576
Accounts receivable, net of allowance for doubtful accounts of \$2,862 and \$1,252 as of September 30, 2018 and December 31, 2017, respectively	82,935	57,096
Deferred costs	21,183	15,771
Prepaid expenses and other current assets	34,287	24,165
Total current assets	589,161	343,978
Marketable securities, noncurrent	360,350	97,447
Property and equipment, net	72,335	59,157
Deferred costs, noncurrent	22,175	15,395
Goodwill and intangible assets, net	148,886	67,034
Other assets	11,157	8,359
Total assets	\$ 1,204,064	\$ 591,370
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 29,270	\$ 5,307
Accrued liabilities	38,699	21,876
Accrued compensation and related benefits	39,158	29,017
Deferred revenue	222,936	173,147
Total current liabilities	330,063	229,347
Convertible senior notes, net	452,075	—
Deferred revenue, noncurrent	2,551	1,213
Other liabilities	14,598	6,626
Total liabilities	799,287	237,186
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock	—	—
Common stock	1,066	1,031
Additional paid-in capital	905,386	753,568
Accumulated other comprehensive loss	(5,797 )	(2,372 )
Accumulated deficit	(495,878 )	(398,043 )
Total stockholders' equity	404,777	354,184
Total liabilities and stockholders' equity	\$ 1,204,064	\$ 591,370

\* See Note 1 for a summary of adjustments.

See Notes to Condensed Consolidated Financial Statements.



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ZENDESK, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
		*As		*As
		adjusted		adjusted
Revenue	\$154,828	\$112,265	\$426,501	\$308,249
Cost of revenue (1)	46,992	33,693	130,207	92,463
Gross profit	107,836	78,572	296,294	215,786
Operating expenses (1):				
Research and development	40,410	29,358	115,118	84,512
Sales and marketing	74,270	54,383	208,778	151,064
General and administrative	27,357	21,398	73,809	59,503
Total operating expenses	142,037	105,139	397,705	295,079
Operating loss	(34,201 )	(26,567 )	(101,411 )	(79,293 )
Other income (expense), net:				
Interest income	4,561			