

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

FORM 10-K

(Mark One)

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

For the fiscal year ended January 31, 2021

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 001-38865

Zoom Video Communications, Inc.

(Exact name of registrant as specified in its Charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

61-1648780
(I.R.S. Employer
Identification No.)

55 Almaden Boulevard, 6th Floor
San Jose, California 95113
(Address of principal executive offices and Zip Code)
(888) 799-9666
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.001 par value per share	ZM	The Nasdaq Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). Yes No

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the registrant's Class A common stock held by non-affiliates of the registrant, based on the closing price of a share of the registrant's Class A common stock on July 31, 2020 as reported by the Nasdaq Global Select Market on such date was approximately \$53.7 billion. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

As of March 5, 2021, the number of shares of the registrant's Class A common stock outstanding was 234,240,582 and the number of shares of the registrant's Class B common stock outstanding was 59,473,463.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to the 2021 Annual Meeting of Stockholders are incorporated herein by references in Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended January 31, 2021.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which statements involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future results of operations or financial condition; business strategy and plans; and objectives of management for future operations, including our statements regarding the benefits and timing of the roll out of new technology, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will,” or “would” or the negative of these words or other similar terms or expressions. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about: our future financial performance, including our revenue, cost of revenue, gross profit, margins, and operating expenses; trends in our key business metrics; the sufficiency of our cash and cash equivalents, investments, and cash provided by sales of our products and services to meet our liquidity needs; market trends; our market position and opportunity; our growth strategy and business aspirations for our video-first unified communications platform; our product strategy; our efforts to enhance the security and privacy of our platform; the potential impacts of the COVID-19 pandemic and related public health measures on our business, the business of our customers, suppliers, and channel partners, and the economy; our ability to become the ubiquitous platform for communications; our ability to attract new customers and retain existing customers; our ability to successfully expand into our existing markets and into new markets; our ability to effectively manage our growth and future expenses; and the impact of recent accounting pronouncements on our consolidated financial statements.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, and operating results. 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 Annual Report on Form 10-K. 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 Annual Report on Form 10-K. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Annual Report on Form 10-K. While we believe that such information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Annual Report on Form 10-K 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 Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K 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.

You should read this Annual Report on Form 10-K and the documents that we reference in this Annual Report on Form 10-K and have filed with the Securities and Exchange Commission as exhibits to this Annual Report on Form 10-K with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

SUMMARY RISK FACTORS

Investing in our Class A common stock involves numerous risks, including the risks described in “Risk Factors” below. Below are some of these risks, any one of which could materially adversely affect our business, financial condition, results of operations, and prospects.

- Our business depends on our ability to attract new customers and hosts, retain and upsell additional products to existing customers, and upgrade free hosts to our paid offerings. Any decline in new customers and hosts, renewals, or upgrades would harm our business;
- Beginning in the fiscal quarter ended April 30, 2020, we faced unprecedented usage of our video-first unified communications platform largely due to the COVID-19 pandemic. We expect our user growth rate to slow or decline once the impact of the COVID-19 pandemic tapers, particularly as a vaccine becomes widely available, and users return to work or school or are otherwise no longer subject to shelter-in-place mandates;
- Interruptions, delays, or outages in service from our co-located data centers and a variety of other factors, including increased usage stemming from the COVID-19 pandemic, would impair the delivery of our services, require us to issue credits or pay penalties, and harm our business;
- We operate in competitive markets, and we must continue to compete effectively;
- We may not be able to sustain our revenue growth rate in the future, and we expect our revenue growth rate to generally decline in future periods;
- Our quarterly results may fluctuate significantly and may not fully reflect the underlying performance of our business;
- Failures in internet infrastructure or interference with broadband access could cause current or potential users to believe that our systems are unreliable, possibly leading our customers and hosts to switch to our competitors, or to cancel their subscriptions to our platform;
- As we increase sales to large organizations, our sales cycles could lengthen, and we could experience greater deployment challenges;
- We generate revenue from sales of subscriptions to our platform, and any decline in demand for our platform or for communications and collaboration technologies in general would harm our business;
- We have experienced net losses in the past, and we expect to increase our expenses in the future, which could prevent us from maintaining profitability;
- We may not be able to respond to rapid technological changes, extend our platform or develop new features;
- Our security measures have been compromised in the past and may be compromised in the future. If our security measures are compromised in the future or if our information technology fails, this could harm our reputation, expose us to significant fines and liability, impair our sales, and harm our business. In addition, our products and services may be perceived as not being secure. This perception may result in customers and hosts curtailing or ceasing their use of our products, our incurring significant liabilities, and our business being harmed;
- We have a limited operating history at the current scale of our business, which makes it difficult to evaluate our prospects and future results of operations;
- The actual or perceived failure by us, our customers, partners, or vendors to comply with stringent and evolving privacy, data protection, and information security laws, regulations, standards, policies, and contractual obligations could harm our reputation and business or subject us to significant fines and liability;
- We have significant and expanding operations outside the United States, which may subject us to increased business, regulatory and economic risks that could harm our business;
- We may be subject to, or assist law enforcement with enforcement of, a variety of U.S. and international laws that could result in claims, increase the cost of operations, or otherwise harm our business due to changes in the laws, changes in the interpretations of the laws, greater enforcement of the laws, or investigations into compliance with the laws;
- Zoom Phone is subject to U.S. federal and international regulation, and other products we may introduce in the future may also be subject to U.S. federal, state, or international laws, rules, and regulations. Any failure to comply with such laws, rules, and regulations could harm our business and expose us to liability; and

- The dual class structure of our common stock as contained in our amended and restated certificate of incorporation has the effect of concentrating voting control with those stockholders who held our stock prior to this offering, including our executive officers, employees, and directors and their affiliates, limiting your ability to influence corporate matters.

PART I

Item 1. BUSINESS

Overview

Our mission is to make video communications frictionless and secure.

We provide a video-first unified communications platform that delivers happiness and fundamentally changes how people interact. We connect people through frictionless and secure video, phone, chat, and content sharing and enable face-to-face video experiences for thousands of people in a single meeting across disparate devices and locations. Our cloud-native platform delivers reliable, high-quality video and voice that is easy to use, manage, and deploy; provides an attractive return on investment; is scalable and easily integrates with physical spaces and applications. We believe that rich and reliable communications lead to interactions that build greater empathy and trust. We strive to live up to the trust our customers place in us by delivering a communications solution that “just works.”

The cornerstone of our platform is Zoom Meetings, around which we provide a full suite of products and features designed to give users an easy, reliable, and innovative unified communications experience. Users are comprised of both hosts who organize video meetings and the individual attendees who participate in those video meetings. In 2019, we launched Zoom Phone, a cloud-based PBX system, creating a unique unified communications platform. Many customers also choose to implement Zoom Rooms, our software-based conference room system, which enables users to easily experience Zoom Meetings in their physical meeting spaces. Our partner ecosystem, which includes App Marketplace and in-product apps, and developer platform help enterprises create elevated experiences with third-party applications to create customized workflows.

The happiness we bring is recognized by customers. Zoom has consistently high scores across customer review sites, including Gartner Peer Insights, TrustRadius, and G2 Crowd, including being recognized as a 2020 Gartner Peer Insights Customers’ Choice for Meeting Solutions and a TrustRadius Top Rated Web Conferencing Software. Industry analysts also recognize our market leadership: Gartner has named Zoom a Leader in its Magic Quadrant for Meeting Solutions based on our “ability to execute” and “completeness of vision.” In 2020 we also became a Leader in the Gartner Magic Quadrant for UCaaS. Frost & Sullivan recognized Zoom with its Global Connected Work Company of the Year award in 2020, as well as awards for Global Video Communications in The COVID-19 Crisis Enabling Technology Leadership, Asia-Pacific Cloud Video Collaboration Services Company of The Year, and Indian Cloud Video Enabling Technology Leadership.

We have a unique model that combines viral enthusiasm for our platform with a multipronged go-to-market strategy for optimal efficiency. Viral enthusiasm begins with our users as they experience our platform – it just works. This enthusiasm continues as meeting participants become paid hosts and as businesses of all sizes become our customers. Our sales efforts funnel this viral demand into routes-to-market that are optimized for each customer opportunity, which can include our direct sales force, online channel, resellers, and strategic partners.

Our Growth Strategy

We focus on the following elements of our strategy to drive our growth:

- **Keep our existing customers happy.** We provide happiness to our customers by giving them an experience that delights them. We respond to customer needs with action to drive positive user experiences. We believe these practices result in our high scores across customer review sites and will continue to generate referrals from our existing customers, providing meaningful viral adoption for the foreseeable future.
- **Drive new customer acquisition.** Our platform is designed to make it easy to host meetings. By attracting free hosts to use our platform, we promote usage that allows hosts and their meeting attendees to experience the difference of Zoom. We complement this lead-generation model with our multipronged go-to-market strategy that integrates the viral enthusiasm for our platform with optimal routes-to-market, including direct sales representatives, online channel, resellers, and strategic partners. This approach allows us to cost-effectively drive upgrades to our paid offering and expansion within organizations of all sizes and verticals.
- **Expand within existing customers.** As organizations experience our video platform and become familiar with its benefits, more teams and departments within these organizations adopt Zoom. Our platform may begin in a line of business and then organically expand across departments. This “land and expand” model has led to some of our largest deployments. Customers are also purchasing services for webinars, room solutions, and phone for the full Zoom Unified Communications as a Service (“UCaaS”) experience.
- **Innovate our platform continuously.** Our engineers aim to stay on the cutting edge of video communication and collaboration technologies. We strive to deliver the best experience to our users by dedicating a portion of

engineering capacity to developing on-demand, customer-requested features that would be valuable across our customer base.

- **Accelerate international expansion.** With users, offices, and data centers strategically located around the world, we are poised to reach new customers globally. Our platform is intuitively designed such that localization requirements are minimal. For example, our platform works without intensive translation requirements with only a few language adjustments to our user interface and support systems.
- **Grow our partnership ecosystem and continue to expand our platform.** Our platform integrates easily with other systems and tools. We enable developers to embed our platform into their own offerings through open application program interfaces (“APIs”) and our cross-platform software development kits (“SDKs”). We have already partnered with several hardware video conferencing and peripheral providers and with software providers, including Atlassian and Dropbox. Third-party developers are able to engage with the Zoom App Marketplace and Zoom Developer Platform to extend the value and adoption of Zoom with our customers through the development of public and private apps and integrations.

Our Products

We provide a unified communications platform that delivers happiness and fundamentally changes how people interact, connecting them through frictionless and secure video, phone, chat, and content sharing. Our core products include Zoom Meetings, Zoom Phone, Zoom Chat, Zoom Rooms, Zoom Conference Room Connector, Zoom Video Webinars, Zoom Developer Platform, and Zoom App Marketplace.

Zoom Meetings

Zoom Meetings provide HD video, voice, chat, and content sharing across mobile devices, desktops, laptops, telephones, and conference room systems. Our architecture can support up to one thousand video participants in a single meeting. Conversations can be one to one, one to many, or many to many. Zoom Meetings feature 49-person video gallery view, virtual backgrounds, MP4/M4A cloud/local recording with transcripts, video breakout rooms, screen sharing with annotation, and integrations with other powerful business applications to help teams get more done together. Zoom Meetings integrate with tools created by companies such as Atlassian, Dropbox, Google, LinkedIn, Microsoft, Salesforce, and Slack. Our meetings are a flexible tool for on-the-go employees who rely on their mobile device or tablet throughout their business day.

An end-to-end encryption (“E2EE”) option is now available to free and paid Zoom customers globally who host meetings with up to 200 participants. Zoom’s E2EE uses the same AES-256-GCM encryption that secures Zoom meetings by default, but with Zoom’s new E2EE, the meeting host generates encryption keys and uses public key cryptography to distribute these keys to the other meeting participants.

Zoom Phone

Zoom Phone is an enterprise cloud phone system that provides powerful private branch exchange (“PBX”) features, such as secure call routing, call queuing, call detail reports, call recording, call quality monitoring, voicemail, switch to video, and much more. Available stand alone, or as an optional add-on to Zoom Meetings, Zoom Phone is a core component of our modern video-first UCaaS strategy that enables customers to replace their existing PBX solution and consolidate all of their business communications and collaboration requirements onto Zoom.

Zoom Phone provides inbound and outbound calling via its support for native connectivity to the public switched telephone network (“PSTN”). In the fiscal year ended January 31, 2021, Zoom Phone provided native PSTN connectivity in 44 countries and territories including Australia, Canada, Ireland, New Zealand, Puerto Rico, United Kingdom (“U.K.”), and the United States (“U.S.”).

Zoom Phone also supports Premise Peering and Cloud Peering, which provide enterprise customers with the flexibility of keeping their current PSTN service providers by redirecting existing third-party voice circuits to the Zoom Phone cloud. Hybrid connectivity is also supported, allowing customers to mix native Zoom Phone Calling Plans and third-party voice circuits. This unique capability allows customers to enjoy all of the benefits and features of Zoom Phone while keeping their existing service provider contracts, phone numbers, and calling rates with their preferred carrier of record.

Zoom Chat

Zoom Chat, which is included in the Zoom client for meeting and phone customers, enables organizations and teams to communicate and collaborate in groups, channels, or 1-1s and to stay connected by instantly sharing messages, images, audio files, and other content across desktop, laptop, tablet, and mobile devices. With Zoom Chat users can easily invite people outside a user’s organization to a chat conversation, and users can quickly switch from a chat to a phone call or video meeting

during a conversation. Zoom Chat also features content storage for users who want discoverability and the ability to review their conversations or shared files. There are dozens of Zoom Chat compatible applications available in the Zoom App Marketplace that provide notifications and improved workflow for other enterprise systems.

Zoom Rooms

Zoom Rooms is our software-based conference room system that transforms every room—from executive offices, huddle rooms, training rooms, to broadcast studios—into a collaboration space that is easy to use, simple to deploy, and effortless to manage. Designed to increase workforce collaboration across in-room and virtual participants, Zoom Rooms bring one-click to join meetings, wireless multi-sharing, interactive whiteboarding, and intuitive room controls for a frictionless and secure Zoom Meeting experience. Zoom Rooms can leverage purpose-built hardware, such as Zoom Rooms Appliances, for a turnkey deployment, or customize room builds with Zoom’s open hardware ecosystem and professional audio/visual equipment, enabling organizations to build video conference rooms for any use case.

Zoom Rooms Scheduling Display helps meet the needs of the agile office by delivering simple, on-the-fly room booking and room utilization management through a calendaring system. With a single Zoom Rooms license, customers get unlimited access to this service, requiring only an iOS or Android touch display outside their rooms.

Zoom Rooms Digital Signage leverages displays, in and out of conference rooms, to project image, video, and URL content playlists. Included as part of Zoom Rooms, role-based admins can easily manage unlimited Digital Signage content and displays through the Zoom Admin Portal and remotely control the content displayed across screens for corporate communications, internal marketing, branding, and more.

Zoom Conference Room Connector

The Zoom Conference Room Connector is a gateway for SIP/H.323 endpoints to join Zoom meetings. For organizations that use SIP/H.323 conference room systems from providers, such as Poly and Cisco, Zoom’s Conference Room Connector can take these traditional hardware video conferencing systems to the cloud, allowing users to leverage their existing investments while taking advantage of the Zoom platform. As organizations transition from legacy hardware-based conference rooms to software-based Zoom Rooms, IT administrators save cost on layers of service, maintenance, and support contracts and bridge their endpoints with Zoom Conference Room Connector. With the cost-savings, organizations can reinvest in video-enabling more rooms and continue to leverage their existing SIP/H.323 endpoints with a consistent, cloud-based experience across all their rooms.

Zoom Video Webinars

Zoom Video Webinars support interactive video presentations to large audiences from almost anywhere in the world and from many devices. Zoom webinars scale up to 50,000 people including up to 100 interactive video panelists. With webinars, hosts have control over the video viewing experience and attendees join to listen, learn and interact using chat, Q&A, live polling and more. Our powerful third-party integrations help users maximize usage of their webinars and expand capabilities with paid registration, marketing automation, lead nurturing and learning management.

Zoom Developer Platform and Zoom App Marketplace

Zoom Developer Platform allows developers to integrate our video, phone, chat, and content sharing into other applications, as well as manage Zoom accounts from any system, with full access to their usage and network metrics data. With our SDKs, APIs and webhooks, Zoom, third-party developers, and partners build applications that integrate our platform with other cloud services. Our customers can also develop highly customizable private applications that integrate Zoom into their systems. Our rich toolbox of extensible APIs, cross-platform SDKs, and MobileRTC powered an average of more than 1.6 billion API engagements per month for calendar year 2020.

Our App Marketplace brings together these integrations built by Zoom and third-party developers, making it easy for developers to publish their apps and for customers to enhance their Zoom experience with new functionalities. We fully vet apps in our marketplace for security and user experience. Zoom App Marketplace features apps and bots with services such as Salesforce, Microsoft Teams, and Google, as well as deep product integrations with Dropbox, Box, Atlassian, and Marketo.

OnZoom and Zoom Apps

We recently announced two additions to the Zoom platform: OnZoom and Zoom Apps. OnZoom is a new platform for Zoom users to create, host, and monetize online events. OnZoom is an extension of Zoom’s unified communications platform with robust monetization (ticketing and fundraising) and simpler event management capabilities. OnZoom is currently offered as a public beta for U.S. users to host and attend online events. Zoom Apps are a new app type coming soon to the Zoom App

Marketplace. These in-product integrations will be accessible directly from Zoom Meetings and the Zoom Desktop client and are designed to facilitate collaboration and engagement during meetings.

Zoom Hardware-as-a-Service

Our Zoom Hardware-as-a-Service offering allows customers to access the latest and greatest video communication technology. Customers can deploy a world-class communications experience with a variety of subscription options for phone and meeting room hardware. Zoom customers will be able to scale video conference rooms and phones with hardware options and hardware refreshes at an affordable, fixed monthly price.

Our Technology and Infrastructure

Our unique technology and infrastructure enable best-in-class reliability, scalability, and performance. We designed our communications platform to be video-first and cloud-native. Most legacy approaches utilize single multipoint control units (“MCUs”) to bridge video and voice participants into an integrated stream that is broadcast back to the participants. These hardware devices are shipped with defined processing and memory capacity that are difficult to scale. In addition, an MCU architecture is similar to other mainframe-like approaches where stream processing and mixing run on the same machine, which is resource-intensive and limits scalability.

Our technology was specifically designed from the start to address the most difficult component of communications: video. Video requires intense computing resources for encoding, decoding, multiplexing, and synchronization, as well as higher bandwidth and network performance, to a much higher degree than other forms of communication like voice, chat, and content sharing. Our architecture separates video content processing from the transporting and mixing of streams. We allocate video content processing to intelligent agents that reside on client devices and dynamically encode and decode based upon the performance of client technology, network performance, and bandwidth. We leverage a next-generation multimedia router that operates on commodity hardware and a globally distributed cloud infrastructure to determine the optimal data centers to host a meeting and an optimal set of paths to connect the participants.

Our Customers

We have customers of all sizes, from individuals to global Fortune 50 organizations. Our current customer base spans numerous industry categories, including education, entertainment/media, enterprise infrastructure, finance, government, health care, manufacturing, non-profit/not for profit and social impact, retail/consumer products, and software/internet. No individual customer represented more than 10% of our total revenue in the fiscal year ended January 31, 2021. As of January 31, 2021, we had approximately 467,100 customers with more than 10 employees.

Sales

Our sales model combines our viral demand generation and our free Zoom Meeting plan with a sales approach optimized for the size of each customer opportunity. Our direct sales force includes our field sales representatives as well as our inside sales team, and it is organized by customer employee count and vertical. Our channel team coordinates the activities of resellers and strategic partners to build a strong ecosystem that broadens our reach. Our online channel supports high-volume, high-velocity, self-service sales.

Marketing

Our marketing team’s primary objective is to create preference for our brand by leveraging our viral growth, enhancing brand perception, and engaging our users with virtual events, social media, and customer advisory councils. We complement our viral growth with targeted online and out-of-home advertising. We shifted our events strategy from in-person to online during the pandemic, including hosting Zoomtopia, our annual user conference, to over 150,000 unique virtual attendees.

Research and Development

We drive our business with constant innovation. We have research and development presence in the United States, India, Singapore and China, which we believe is a strategic advantage for us, allowing us to invest more in increasing our product capabilities in an efficient manner with a “follow the sun” strategy.

Our Competition

The markets in which we operate are highly competitive. We face competition from legacy web-based meeting services providers, including Cisco Webex and LogMeIn GoToMeeting, and bundled productivity solution providers with video functionality, including Google G Suite and Microsoft Teams, as well as UCaaS and legacy PBX providers, including 8x8, Avaya, and RingCentral.

We believe we compete favorably based on the following competitive factors:

- video-first platform;
- cloud-native architecture;
- functionality and scalability;
- ease of use and reliability;
- brand awareness and preference;
- ability to utilize existing infrastructure, such as legacy conference room hardware; and
- low total cost of ownership.

Intellectual Property

We rely on a combination of patents, trademarks, copyrights, and trade secrets, as well as contractual protections, to establish and protect our intellectual property rights. We actively seek patent protection covering inventions originating from our company. We also pursue the registration and enforcement of trademarks and domain names in the United States and in various jurisdictions outside the United States.

We control access to and use of our proprietary technology and other confidential information through internal and external controls, including contractual protections with employees, contractors, customers, and partners. Our software is protected by U.S. and international intellectual property laws. Our policy requires employees and independent contractors to sign agreements (1) assigning to us any inventions, trade secrets, works of authorship, and other intellectual property generated by them in the course of their employment, and (2) agreeing to protect our confidential information.

In certain circumstances, we license intellectual property from third parties for use in our products. This may include open source software. We take steps to ensure compliance with the terms of the licenses governing such licensed technology. We believe our business is not materially dependent on any individual patent, trademark, copyright, trade secret, license, or other intellectual property right. For information on the risks associated with our intellectual property, see “Item 1A - Risk Factors.”

Government Regulation

Our business activities are subject to various federal, state, local, and foreign laws, rules, and regulations. Compliance with these laws, rules, and regulations has not had, and is not expected to have, a material effect on our capital expenditures, results of operations and competitive position as compared to prior periods. Nevertheless, compliance with existing or future governmental regulations, including, but not limited to, those pertaining to global trade, business acquisitions, consumer and data protection, and taxes, could have a material impact on our business in subsequent periods. For more information on the potential impacts of government regulations affecting our business, see “Item 1A - Risk Factors.”

Human Capital

As of January 31, 2021, we had 4,422 full-time employees. Of these employees, 2,662 are in the United States and 1,760 are in our international locations. None of our employees are represented by a labor union or covered by collective bargaining agreements, and we have not experienced any work stoppages.

Our Culture of Happiness

We are focused on delivering happiness to our employees and customers. We strive to change the way business is done through our communications technology and our company culture. We take happiness so seriously that we have an employee-led happiness committee and crew to facilitate and amplify our efforts to deliver happiness to our employees and customers.

Our culture of delivering happiness drives our mission, vision, and values and is fundamental to everything we do at Zoom:

- **Mission.** Our mission is to make video communications frictionless and secure.
- **Vision.** Our vision is to empower people to accomplish more through video communications.
- **Values.** We care for our community, our customers, our company, our teammates, and ourselves.

This culture supports our hiring and serves as a competitive advantage in attracting and retaining top talent. Comparably recognized Zoom for numerous culture awards in 2020 including Best Company Happiness and Best CEO. Our employees also named Zoom among the winners of Glassdoor’s Employees’ Choice Awards honoring the Best Places to Work in 2021.

Diversity, Equity and Inclusion

Diversity, equity and inclusion (“DEI”) at Zoom is an embodiment of our core value of Care. DEI also represents our intentional effort to create an inclusive environment of the brightest minds from a broad set of backgrounds in order to create the most innovative solutions for our customers. Our approach to DEI is driven across four strategic focus areas: workforce (who and how we hire), workplace (how it feels to work at Zoom), marketplace (how we include our customers) and community (how we help to make the world more equitable).

In June, we hired our first Chief Diversity Officer, Damien Hooper-Campbell, to lead our DEI function globally. We have taken steps to diversify our candidate outreach through engagements with AfroTech, Merritt College, AnitaB.org and a five-year strategic partnership with Claflin University. In our workplace, we launched our Zoom Talks initiative to create ongoing spaces for our employees to learn more about each other’s unique backgrounds. We also launched our inaugural Employee Resource Group (“ERG”) program with a focus on Black, Latinx, Women’s, Veterans and LGBTQ+ communities. Our DEI Team continues to partner with teams leading our product design and marketing to invest in making our products even more inclusive and accessible to the diverse set of communities we serve. Finally, in an effort to both further our education internally and provide others outside of Zoom with an opportunity to learn, we created the nine-part learning series, “Race in the Workplace”, in partnership with TIME and renowned expert, Dr. Shaun Harper.

Compensation and Benefits

We offer fair, competitive compensation and benefits that support our employees’ overall well-being. Our employees’ total compensation packages include base pay, bonuses or sales commissions, and equity. We offer a wide array of benefits including comprehensive healthcare benefits, including mental health and fertility benefits, wellness benefits, a book reimbursement plan to support continuous learning, and charitable gift matching through our Zoom Cares program.

In response to the COVID-19 pandemic, we implemented significant changes that we determined were in the best interest of our employees as well as the communities in which we operate. This includes having the vast majority of our employees work from home, while implementing additional safety measures for employees continuing critical on-site work. We also provide flexible work hours in certain cases. We have also provided a work-from-home reimbursement policy to assist employees in that transition.

Our Facilities

Our corporate headquarters is located in San Jose, California, where we lease approximately 103,000 square feet of commercial space pursuant to operating leases that expire in the fiscal year ending January 31, 2030. In addition, we maintain additional offices in the United States and internationally in Asia-Pacific (“APAC”) and Europe, Middle East, and Africa (“EMEA”). We believe that our facilities are suitable to meet our current needs.

Corporate Information

We were incorporated under the laws of the state of Delaware in April 2011 under the name Saasbee, Inc., and in February 2012, we changed our name to Zoom Communications, Inc. In May 2012, we changed our name to Zoom Video Communications, Inc. Our principal executive offices are located at 55 Almaden Boulevard, 6th Floor, San Jose, California 95113. Our telephone number is (888) 799-9666. Our website address is <https://zoom.com>. Information contained on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K. The Zoom design logo, “Zoom,” “Zoom Video Communications,” and our other registered or common law trademarks, service marks or trade names appearing in this Annual Report on Form 10-K are the property of Zoom Video Communications, Inc. Other trade names, trademarks, and service marks used in this Annual Report on Form 10-K are the property of their respective owners.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Exchange Act. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information that we file with the SEC electronically. Copies of our reports on Form 10-K, Forms 10-Q, Forms 8-K, and amendments to those reports may also be obtained, free of charge, electronically through our investor relations website located at investors.zoom.us as soon as reasonably practical after we file such material with, or furnish it to, the SEC.

We announce material information to the public through a variety of means, including filings with the SEC, press releases, public conference calls, our website (www.zoom.com) and the investor relations section of our website (investors.zoom.us). We use these channels, as well as social media, including our blog (blog.zoom.us), our Twitter account (@zoom_us), our LinkedIn page (linkedin.com/company/zoom-video-communications), and our Facebook page (facebook.com/zoomvideocommunications), to communicate with investors and the public about our Company, our products

and services, and other matters. Therefore, we encourage investors, the media, and others interested in our Company to review the information we make public in these locations, as such information could be deemed to be material information. Information on or that can be accessed through our websites or these social media channels is not part of this Annual Report on Form 10-K, and the inclusion of our website addresses and social media channels are inactive textual references only.

Item 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes, before making a decision to invest in our securities. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occur, our business could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business and Our Industry

Our business depends on our ability to attract new customers and hosts, retain and upsell additional products to existing customers, and upgrade free hosts to our paid offerings. Any decline in new customers and hosts, renewals, or upgrades would harm our business.

Our business depends upon our ability to attract new customers and hosts, and maintain and expand our relationships with our customers and hosts, including upselling additional products to our existing customers and upgrading hosts to a paid Zoom Meeting plan. A host is any user of our unified communications platform who initiates a Zoom Meeting and invites one or more participants to join that meeting. We refer to hosts who subscribe to a paid Zoom Meeting plan as “paid hosts.”

Our business is subscription based, and customers are not obligated to, and may choose not to, renew their subscriptions after their existing subscriptions expire. As a result, we cannot provide assurance that customers will renew their subscriptions utilizing the same tier of their Zoom Meeting plan, upgrade to a higher-priced tier, or purchase additional products, if they renew at all. Renewals of subscriptions to our platform may decline or fluctuate because of several factors, such as dissatisfaction with our products and support, a customer or host no longer having a need for our products, including any new customers or hosts that have subscribed to our services during the COVID-19 pandemic that may subsequently reduce or discontinue their use after the impact of the pandemic has tapered, or the perception that competitive products provide better, more secure, or less expensive options. In addition, some customers downgrade their Zoom Meeting plan or do not renew their subscriptions. Furthermore, as a result of the increased usage of our platform during the COVID-19 pandemic, our customer base has shifted from largely businesses and enterprises to a mix of businesses, enterprises, and consumers. This shift in mix could result in higher non-renewal rates than we have experienced in the past. We must continually add new customers and hosts to grow our business beyond our current user base and to replace customers and hosts who choose not to continue to use our platform. Finally, any decrease in user satisfaction with our products or support would harm our brand, word-of-mouth referrals, and ability to grow.

We encourage customers to purchase additional products and encourage hosts to upgrade to our paid offerings by recommending additional features and through in-product prompts and notifications. Additionally, we seek to expand within organizations by adding new hosts, having workplaces purchase additional products, or expanding the use of Zoom into other teams and departments within an organization. At the same time, we strive to demonstrate the value of our platform and various product offerings to those hosts that subscribe to our free Zoom Meeting plan, thereby encouraging them to upgrade to a paid Zoom Meeting plan. However, a majority of these hosts, including those that recently subscribed to our free plan during the COVID-19 pandemic as a result of shelter-in-place and work-from-home mandates, may never upgrade to a paid Zoom Meeting plan. If we fail to upsell our customers or upgrade hosts of our free Zoom Meeting plan to paid subscriptions or expand the number of paid hosts within organizations, our business would be harmed.

In addition, our user growth rate may slow or decline in the future as our market penetration rates increase and we turn our focus to upgrading our free hosts to a paid Zoom Meeting plan rather than growing the total number of users. If we are not able to continue to expand our user base, our revenue may grow more slowly than expected or decline. Similar to the uncertainty of customers renewing their subscriptions or hosts upgrading to a paid Zoom Meeting plan, we expect our user growth rate to slow or decline once the impact of the COVID-19 pandemic tapers, particularly as a vaccine becomes widely available, and users return to work or school or are otherwise no longer subject to shelter-in-place mandates.

Interruptions, delays, or outages in service from our co-located data centers and a variety of other factors, including increased usage stemming from the COVID-19 pandemic, would impair the delivery of our services, require us to issue credits or pay penalties, and harm our business.

We currently serve our users from various co-located data centers located throughout the world. We also utilize Amazon Web Services and Oracle Cloud for the hosting of certain critical aspects of our business, as well as Microsoft Azure for limited customer-specified managed services. As part of our distributed meeting architecture, we establish private links between data centers that automatically transfer data between various data centers in order to optimize performance on our platform. Damage to, or failure of, these data centers has in the past resulted in and could in the future result in interruptions or delays in our services. In addition, we have experienced, and may in the future experience, other interruptions and delays in our services caused by a variety of other factors, including, but not limited to, infrastructure changes, vendor issues, human or software errors, viruses, security attacks, ransomware or cyber extortion, fraud, general internet availability issues, spikes in usage, and denial of service issues. In some instances, we may not be able to identify the cause or causes of these problems within an acceptable period of time. For example, we have experienced partial outages in our services that impacted a subset of our users for a limited number of hours. Additionally, in connection with the addition of new data centers or expansion or consolidation of our existing data center facilities or other reasons, we may move or transfer our data and our users' metadata to other data centers, not including our China data center. Despite precautions that we take during this process, any unsuccessful data transfers may impair or cause disruptions in the delivery of our service, and we may incur significant costs in connection with any such move or transfer. Interruptions, delays, or outages in our services would reduce our revenue; may require us to issue credits or pay penalties; may subject us to claims and litigation; and may cause customers and hosts to terminate their subscriptions and adversely affect our ability to attract new customers and hosts. Our ability to attract and retain customers and hosts depends on our ability to provide customers and hosts with a highly reliable platform and even minor interruptions or delays in our services could harm our business.

Additionally, if our data centers are unable to keep up with our increasing needs for capacity, including increased usage stemming from the COVID-19 pandemic, customers may experience delays or interruptions in service as we seek to obtain additional capacity, which could result in the loss of customers who use our unified communications platform because of its reliability and performance. We plan to continue our practice of opening new data centers to meet increased demand, but we may be unable to bring additional data centers online in a timely manner, including as a result of current shortages for certain parts, such as servers. In addition, to meet short-term capacity needs, we may need to rely increasingly on public cloud providers, including Amazon Web Services and Oracle Cloud, which may result in higher variable costs and harm our business, financial condition, and operating results.

We do not control, or in some cases have limited control over, the operation of the co-located data center facilities we use, and they are vulnerable to damage or interruption from human error; intentional bad acts; earthquakes; floods; fires; hurricanes; war; terrorist attacks; power losses; hardware failures; systems failures; telecommunications failures; disease, such as the COVID-19 pandemic; and similar events, any of which could disrupt our service. In the event of significant physical damage to one of these data centers, it may take a significant period of time to achieve full resumption of our services and our disaster recovery planning may not account for all eventualities. Despite precautions taken at these facilities, the occurrence of a natural disaster, an act of terrorism, or other act of malfeasance, a decision to close the facilities without adequate notice or other unanticipated problems at the facilities would harm our business.

We operate in competitive markets, and we must continue to compete effectively.

The market for communication and collaboration technologies platforms is competitive and rapidly changing. Certain features of our current platform compete in the communication and collaboration technologies market with products offered by:

- legacy web-based meeting providers, including Cisco Webex and LogMeIn GoToMeeting;
- bundled productivity solutions providers with video functionality, including Microsoft Teams and Google G Suite and Meet products;
- UCaaS and legacy PBX providers, including Avaya, RingCentral, and 8x8; and
- consumer-facing platforms that can support small- or medium-sized businesses, including Amazon, Apple and Facebook.

Other large established companies may also make investments in video communications tools. In addition, as we introduce new products and services, and with the introduction of new technologies and market entrants, we expect competition to intensify in the future. For example, we recently introduced Zoom Phone, a cloud phone system that allows customers to replace their existing PBX solution, which will result in increased competition against companies that offer similar services and new competitors that may enter that market in the future. Also, in connection with the travel restrictions and stay-in-place policies resulting from the COVID-19 pandemic, we have seen a significant increase in usage and subscriptions from smaller customers, many of whom are consumers or small and medium sized businesses. With respect to these smaller customers, we face competition from more consumer-oriented platforms, most of which have more experience with the consumer market than we do. Further, many of our actual and potential competitors benefit from competitive advantages over us, such as greater name

recognition; longer operating histories; more varied products and services; larger marketing budgets; more established marketing relationships; third-party integration; greater accessibility across devices or applications; access to larger user bases; major distribution agreements with hardware manufacturers and resellers; and greater financial, technical, and other resources. Some of our competitors may make acquisitions or enter into strategic relationships to offer a broader range of products and services than we do. These combinations may make it more difficult for us to compete effectively. We expect these trends to continue as competitors attempt to strengthen or maintain their market positions.

Demand for our platform is also price sensitive. Many factors, including our marketing, user acquisition, and technology costs, and our current and future competitors' pricing and marketing strategies, can significantly affect our pricing strategies. Certain competitors offer, or may in the future offer, lower-priced or free products, or services that compete with our platform, or may bundle and offer a broader range of products and services than we do. Similarly, certain competitors may use marketing strategies that enable them to acquire customers at a lower cost than we can. Furthermore, third parties could build products similar to ours that rely on open source software. Even if such products do not include all the features and functionality that our platform provides, we could face pricing pressure from these third parties to the extent that users find such alternative products to be sufficient to meet their video communications needs. There can be no assurance that we will not be forced to engage in price-cutting initiatives or other discounts or to increase our marketing and other expenses to attract and retain customers in response to competitive pressures, either of which would harm our business. We, on occasion, offer customers a free period of time at the beginning of the subscription term that can result in deferred billings or long-term accounts receivable and increase the risk of loss on uncollected accounts receivable.

We may not be able to sustain our revenue growth rate in the future.

We have experienced significant revenue growth in prior periods. You should not rely on the revenue growth of any prior quarterly or annual period as an indication of our future performance. We expect our revenue growth rate to generally decline in future periods. Many factors may contribute to declines in our growth rate, including higher market penetration, increased competition, slowing demand for our platform, especially once the impact of the COVID-19 pandemic tapers, particularly as a vaccine becomes widely available, and users return to work or school or are otherwise no longer subject to shelter-in-place mandates, a failure by us to continue capitalizing on growth opportunities, and the maturation of our business, among others. If our growth rate declines, investors' perceptions of our business and the trading price of our Class A common stock could be adversely affected.

Our quarterly results may fluctuate significantly and may not fully reflect the underlying performance of our business.

Our quarterly results of operations may vary significantly in the future, and period-to-period comparisons of our results of operations may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. Our quarterly results of operations may fluctuate as a result of a variety of factors, many of which are outside of our control, and as a result, may not fully reflect the underlying performance of our business. For example, beginning in the fiscal quarter ended April 30, 2020, we faced unprecedented usage of our unified communications platform largely due to the COVID-19 pandemic, a significant portion of which is attributable to free Basic accounts, which do not generate any revenue. To meet this increased demand, we have incurred and expect to continue to incur significant costs associated with upgrading our infrastructure and expanding our capacity, including higher variable costs to the extent we have had to rely on public cloud providers rather than our own data centers. Fluctuation in quarterly results may negatively impact the value of our securities. Factors that may cause fluctuations in our quarterly results of operations include, without limitation, those listed below:

- our ability to retain and upgrade customers to higher-priced tiers of Zoom Meeting plans;
- our ability to attract new hosts and upgrade hosts that subscribe to our free Zoom Meeting plan to one of our paid Zoom Meeting plans;
- our ability to hire and retain employees, in particular those responsible for the selling or marketing of our platform;
- our ability to hire, develop, and retain talented sales personnel who are able to achieve desired productivity levels in a reasonable period of time and provide sales leadership in areas in which we are expanding our sales and marketing efforts;
- changes in the way we organize and compensate our sales teams;
- the timing of expenses and recognition of revenue;
- our ability to increase sales to large organizations;

- the length of our sales cycles, especially with respect to sales to large enterprises and highly-regulated industries, including financial services and U.S. federal and state and foreign governmental agencies;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations, and infrastructure, as well as international expansion and entry into operating leases; and the hiring and retention of personnel who can build, manage, and maintain our expanded business operations and infrastructure;
- timing and effectiveness of new sales and marketing initiatives;
- changes in our pricing policies or those of our competitors;
- our ability to hire and retain experienced research and development personnel to design new products, features, and functionality that meet our privacy and security standards;
- the timing and success of new products, features, and functionality by us or our competitors;
- interruptions or delays in our service; network outages; or actual, alleged, or perceived privacy violations or issues or security vulnerabilities, incidents, or breaches;
- lawsuits; regulatory actions or investigations; legislator scrutiny; or negative publicity arising from actual, alleged, or perceived privacy violations or issues or security vulnerabilities, incidents, or breaches;
- changes in the competitive dynamics of our industry, including consolidation among competitors;
- changes in laws and regulations that impact our business;
- any large indemnification payments to our users or other third parties;
- the timing of expenses related to any future acquisitions; and
- general economic and market conditions.

Failures in internet infrastructure or interference with broadband access could cause current or potential users to believe that our systems are unreliable, possibly leading our customers and hosts to switch to our competitors, or to cancel their subscriptions to our platform.

Unlike traditional communications and collaborations technologies, our services depend on our users' high-speed broadband access to the internet, usually provided through a cable or digital subscriber line connection. Increasing numbers of users and increasing bandwidth requirements may degrade the performance of our platform due to capacity constraints and other internet infrastructure limitations. As our number of users grow and their usage of communications capacity increases, including increased usage stemming from the COVID-19 pandemic, we will be required to make additional investments in network capacity to maintain adequate data transmission speeds, the availability of which may be limited, or the cost of which may be on terms unacceptable to us. If adequate capacity is not available to us as our user base grows, our network may be unable to achieve or maintain sufficiently high data transmission capacity, reliability, or performance. In addition, if internet service providers and other third parties providing internet services have outages or deteriorations in their quality of service, our users will not have access to our platform or may experience a decrease in the quality of our platform. Furthermore, as the rate of adoption of new technologies increases, the networks our platform relies on may not be able to sufficiently adapt to the increased demand for these services, including ours. Frequent or persistent interruptions could cause current or potential users to believe that our systems or platform are unreliable, leading them to switch to our competitors or to avoid our platform, which could permanently harm our business.

In addition, users who access our platform through mobile devices, such as smartphones and tablets, must have a high-speed connection, such as 3G, 4G, 5G, LTE, satellite, or Wi-Fi, to use our services and applications. Currently, this access is provided by companies that have significant and increasing market power in the broadband and internet access marketplace, including incumbent phone companies, cable companies, satellite companies, and wireless companies. Some of these providers offer products and subscriptions that directly compete with our own offerings, which can potentially give them a competitive advantage. Also, these providers could take measures that degrade, disrupt, or increase the cost of user access to third-party services, including our platform, by restricting or prohibiting the use of their infrastructure to support or facilitate third-party services or by charging increased fees to third parties or the users of third-party services, any of which would make our platform less attractive to users and reduce our revenue.

On January 4, 2018, the Federal Communications Commission ("FCC") released an order reclassifying broadband internet access as an information service, subject to certain provisions of Title I of the Communications Act. The order requires broadband providers to publicly disclose accurate information regarding network management practices, performance characteristics, and commercial terms of their broadband internet access services sufficient to enable consumers to make informed choices regarding the purchase and use of such services, and entrepreneurs and other small businesses to develop,

market, and maintain internet offerings. The new rules went into effect on June 11, 2018. Numerous parties filed judicial challenges to the order, and on October 1, 2019, the United States Court of Appeals for the District of Columbia Circuit released a decision that rejected nearly all of the challenges to the new rules, but reversed the FCC's decision to prohibit all state and local regulation targeted at broadband internet service, requiring case-by-case determinations as to whether state and local regulation conflicts with the FCC's rules. The court also required the FCC to reexamine three issues from the order but allowed the order to remain in effect, while the FCC conducts that review. On February 6, 2020, the court denied requests for rehearing of the original decision, and the deadline for petitions requesting the Supreme Court to review the decision has passed without the filing of any such petitions. On February 19, 2020, the FCC released a public notice asking for comment on the three issues the court required it to reexamine. On October 27, 2020, the FCC adopted an order concluding that the three issues remanded by the court did not provide a basis to alter its conclusions in the 2018 order. Petitions for reconsideration of this decision are pending. Democratic control of the Executive Branch, Congress, and the FCC following the 2020 elections increases the likelihood of legislative or FCC action to reverse the 2018 decision or adopt new network neutrality rules. In addition, a number of states have adopted or are adopting or considering legislation or executive actions that would regulate the conduct of broadband providers. On February 23, 2021, a federal court judge denied a request for injunction against California's state-specific network neutrality law, and as a result, California will soon begin enforcing that law. On March 10, 2021, trade associations representing internet service providers appealed the district court's ruling denying the preliminary injunction. We cannot predict whether the FCC order or other state initiatives will be enforced, modified, overturned, or vacated by legal action of the court, federal legislation, or the FCC. Under the new rules, broadband internet access providers may be able to charge web-based services such as ours for priority access or favor services offered by our competitors or by the internet access providers themselves, which could result in increased costs and a loss of existing customers and hosts, impair our ability to attract new customers and hosts, and harm our business.

If there are changes to the regulatory structures in the United States or elsewhere that reduce investment in infrastructure by internet service providers, including a return of the network neutrality regulations that were repealed, any impacts of reduced investment that reduce network capacity or speed could have a negative effect on our business, operating results, and financial condition.

As we increase sales to large organizations, our sales cycles could lengthen, and we could experience greater deployment challenges.

As we continue to grow, we have begun investing more resources into sales to large organizations. Large organizations typically undertake a significant evaluation and negotiation process due to their leverage, size, organizational structure, and approval requirements, all of which can lengthen our sales cycle. We may also face unexpected deployment challenges with large organizations or more complicated deployment of our platform. Large organizations may demand additional features, support services and pricing concessions, or require additional security management or control features. We may spend substantial time, effort, and money on sales efforts to large organizations without any assurance that our efforts will produce any sales or that these customers will deploy our platform widely enough across their organization to justify our substantial up-front investment. As a result, we anticipate increased sales to large organizations will lead to higher up-front sales costs and greater unpredictability in our business, results of operations, and financial condition.

We generate revenue from sales of subscriptions to our platform, and any decline in demand for our platform or for communications and collaboration technologies in general would harm our business.

We generate, and expect to continue to generate, revenue from the sale of subscriptions to our platform. As a result, widespread acceptance and use of communications and collaboration technologies in general, and our platform in particular, is critical to our future growth and success. If the communications and collaboration technologies market fails to grow, or grows more slowly than we currently anticipate, or if any new customers or hosts that have subscribed to our services during the COVID-19 pandemic subsequently reduce or discontinue their use after the impact of the pandemic has tapered, demand for our platform could be negatively affected.

Changes in user preferences for communications and collaboration technologies may have a disproportionately greater impact on us than if we offered multiple platforms or disparate products. Demand for communications and collaboration technologies in general, and our platform in particular, is affected by a number of factors, many of which are beyond our control. Some of these potential factors include:

- general awareness of the communications and collaboration technologies category;
- availability of products and services that compete with ours;
- new modes of communications and collaboration that may be developed in the future;
- ease of adoption and use;

- features and platform experience;
- reliability of our platform, including frequency of outages;
- performance;
- brand;
- user support; and
- pricing.

The communications and collaboration technologies market is subject to rapidly changing user demand and trends in preferences. If we fail to successfully predict and address these changes and trends, meet user demands, or achieve more widespread market acceptance of our platform, our business would be harmed.

We have experienced net losses in the past, and we expect to increase our expenses in the future, which could prevent us from maintaining profitability.

Although we generated net income of \$672.3 million, \$25.3 million and \$7.6 million for the fiscal years ended January 31, 2021, 2020, and 2019, respectively, we have incurred net losses in the past and could incur net losses in the future. We intend to continue to expend significant funds to expand our direct sales force and marketing efforts to attract new customers and hosts and to develop and enhance our products and for general corporate purposes, including operations, hiring additional personnel, including through acquisitions of other businesses, upgrading our infrastructure, and addressing security and privacy issues, including those stemming from the unprecedented numbers of first-time users during the COVID-19 pandemic who may not have full IT support or established protocols like our enterprise customers, and expanding into new geographical markets. To the extent we are successful in increasing our user base, we may also incur increased losses because, other than sales commissions, the costs associated with acquiring customers and hosts are generally incurred up front, while the subscription revenue is generally recognized ratably over the subscription term, which can be monthly, annual, or on a multiyear basis. Our efforts to grow our business may be costlier than we expect, and we may not be able to increase our revenue enough to offset our higher operating expenses. We may incur significant losses in the future for a number of reasons, including as a result of the other risks described herein, and unforeseen expenses, difficulties, complications, delays, and other unknown events. For example, we have faced unprecedented usage during the COVID-19 pandemic and, to meet this increased demand, have incurred and expect to continue to incur significant costs associated with upgrading our infrastructure and expanding our capacity, including higher variable costs to the extent we have to rely on public cloud providers rather than our own data centers. Despite these significant investments, a majority of these new hosts using our platform on a free Basic account may never upgrade to a paid Zoom Meeting plan. If we are unable to sustain profitability, the value of our business and Class A common stock may significantly decrease. Furthermore, it is difficult to predict the size and growth rate of our market, customer demand for our platform, user adoption and renewal of our platform, the entry of competitive products and services, or the success of existing competitive products and services. As a result, we may not maintain profitability in future periods. If we fail to grow our revenue sufficiently to keep pace with our investments and other expenses, our business would be harmed.

The experience of our users depends upon the interoperability of our platform across devices, operating systems, and third-party applications that we do not control, and if we are not able to maintain and expand our relationships with third parties to integrate our platform with their solutions, our business may be harmed.

One of the most important features of our platform is its broad interoperability with a range of diverse devices, operating systems, and third-party applications. Our platform is accessible from the web and from devices running Windows, Mac OS, iOS, Android, and Linux. We also have integrations with Atlassian, Dropbox, Google, Microsoft, Salesforce, Slack, and a variety of other productivity, collaboration, data management, and security vendors. We are dependent on the accessibility of our platform across these and other third-party operating systems and applications that we do not control. For example, given the broad adoption of Microsoft Office and other productivity software, it is important that we are able to integrate with this software. Several of our competitors own, develop, operate, or distribute operating systems, app stores, co-located data center services, and other software, and also have material business relationships with companies that own, develop, operate, or distribute operating systems, applications markets, co-located data center services, and other software that our platform requires in order to operate. Moreover, some of these competitors have inherent advantages developing products and services that more tightly integrate with their software and hardware platforms or those of their business partners.

Third-party services and products are constantly evolving, and we may not be able to modify our platform to assure its compatibility with that of other third parties following development changes. In addition, some of our competitors may be able to disrupt the operations or compatibility of our platform with their products or services, or exert strong business influence on our ability to, and terms on which we, operate and distribute our platform. For example, we currently offer products that directly compete with several large technology companies that we rely on to ensure the interoperability of our platform with

their products or services. As our respective products evolve, we expect this level of competition to increase. Should any of our competitors modify their products or standards in a manner that degrades the functionality of our platform or gives preferential treatment to competitive products or services, whether to enhance their competitive position or for any other reason, the interoperability of our platform with these products could decrease and our business could be harmed.

In addition, we provide, develop, and create applications for our platform partners that integrate our platform with our partners' various offerings. For example, our Zoom Meetings product integrates with tools offered by companies, such as Atlassian and Dropbox, to help teams get more done together. If we are not able to continue and expand on existing and new relationships to integrate our platform with our partners' solutions, or there are quality issues with our products or service interruptions of our products that integrate with our partners' solutions, our business will be harmed.

We are subject to requirements imposed by app stores such as those operated by Apple and Google, who may change their technical requirements or policies in a manner that adversely impacts the way in which we or our partners collect, use and share data from users. If we do not comply with these requirements, we could lose access to the app store and users, and our business would be harmed.

We may not be able to respond to rapid technological changes, extend our platform, or develop new features.

The communications and collaboration technologies market is characterized by rapid technological change and frequent new product and service introductions. Our ability to grow our user base and increase revenue from customers will depend heavily on our ability to enhance and improve our platform; introduce new features and products; and interoperate across an increasing range of devices, operating systems, and third-party applications. Our customers may require features and capabilities that our current platform does not have. We invest significantly in research and development, and our goal is to focus our spending on measures that improve quality and ease of adoption, enhance privacy and security, and create organic user demand for our platform. For example, in October 2020 we introduced two new additions to our Zoom platform, OnZoom and Zoom Apps. There is no assurance that these new additions or other future enhancements to our platform or new product experiences, features, or capabilities will be compelling to our users or gain market acceptance, or that they will perform as expected. If our research and development investments do not accurately anticipate user demand or if we fail to develop our platform in a manner that satisfies user preferences and requirements in a timely and cost-effective manner, we may fail to retain our existing users or increase demand for our platform.

The introduction of new products and services by competitors or the development of entirely new technologies to replace existing offerings could make our platform obsolete or adversely affect our business, results of operations, and financial condition. We may experience difficulties with software development, design, or marketing that could delay or prevent our development, introduction, or implementation of new product experiences, features, or capabilities. We have in the past experienced delays in our internally planned release dates of new features and capabilities and there can be no assurance that new product experiences, features, or capabilities will be released according to schedule. Any delays could result in adverse publicity, loss of revenue or market acceptance, or claims by users brought against us, all of which could harm our business. Moreover, new productivity features to our platform may require substantial investment, and we have no assurance that such investments will be successful. If customers and hosts do not widely adopt our new product experiences, features, and capabilities, or they do not perform as expected, we may not be able to realize a return on our investment. If we are unable to develop, license, or acquire new features and capabilities to our platform on a timely and cost-effective basis, or if such enhancements do not achieve market acceptance, our business would be harmed.

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

Our ability to increase our customer and host base and achieve broader market acceptance of our products and services will depend to a significant extent on our ability to expand our marketing and sales operations. We plan to continue expanding our sales force and strategic partners, both domestically and internationally. If we are unable to hire a sufficient number of qualified sales personnel in the near term, our future revenue growth and business could be adversely impacted.

Identifying and recruiting qualified sales representatives and training them is time consuming and resource intensive, and they may not be fully trained and productive for a significant amount of time. We also plan to dedicate significant resources to sales and marketing programs, including internet and other online advertising. All of these efforts will require us to invest significant financial and other resources. In addition, the cost to acquire customers and hosts is high due to these marketing and sales efforts. Our business will be harmed if our efforts do not generate a correspondingly significant increase in revenue. We will not achieve anticipated revenue growth from expanding our sales force if we are unable to hire, develop, and retain talented sales personnel, our new sales personnel are unable to achieve desired productivity levels in a reasonable period of time, or if our sales and marketing programs are not effective.

Our security measures have been compromised in the past and may be compromised in the future. If our security measures are compromised in the future or if our information technology fails, this could harm our reputation, expose us to significant fines and liability, impair our sales, and harm our business. In addition, our products and services may be perceived as not being secure. This perception may result in customers and hosts curtailing or ceasing their use of our products, our incurring significant liabilities, and our business being harmed.

Our operations involve the storage and transmission of customer and user data or information, and security incidents have occurred in the past, and may occur in the future, resulting in unauthorized access to, loss or unauthorized disclosure of, or inadvertent disclosure of, this information, regulatory investigations or enforcement actions, litigation, indemnity obligations, and other possible liabilities, as well as negative publicity, which could damage our reputation, impair our sales, and harm our business. Cyberattacks and other malicious internet-based activity continue to increase, and cloud-based platform providers of products and services have been and are expected to continue to be targeted. In addition to traditional computer “hackers,” we face security risks from malicious code (such as viruses and worms), phishing incidents, credential stuffing attacks, employee theft, misuse of information or systems, sophisticated nation-state and nation-state supported actors, and advanced persistent threat intrusions. Moreover, security incidents can result in interruptions, delays, or outages in our operations and services, including due to ransomware or denial-of-service attacks. Despite significant efforts to create security barriers to such threats, it is impossible for us to entirely mitigate these risks. If our security measures are compromised as a result of third-party action, employee, customer, host or user error, malfeasance, stolen or fraudulently obtained log-in credentials, or otherwise, our reputation could be damaged; our data, information or intellectual property, or that of our customers, may be destroyed, stolen, or otherwise compromised; our business may be harmed; and we could incur significant liability. We have not always been able in the past and may be unable in the future to anticipate or prevent threats or techniques used to detect or exploit vulnerabilities in our services or software or third-party software, or obtain unauthorized access to or compromise our systems, because such threats and techniques change frequently and are generally not detected until after an incident has occurred. In addition, security researchers and other individuals have in the past and will continue in the future to actively search for and exploit actual and potential vulnerabilities in our software or services. This activity may increase because of increased demand for our services and increased media scrutiny of our unified communications platform, and can lead to additional adverse publicity, reputational harm, extortion threats, business and operational interruptions, security incidents, additional expenses, litigation, regulatory investigations and actions, and substantial harm to our business, some of which we have experienced during the COVID-19 pandemic. For example, in July 2019, a security researcher published a blog highlighting concerns with the Zoom Meeting platform, including certain video-on features. We were able to release updates to the software addressing these vulnerabilities, and we are not aware of any customers being affected or meetings compromised by these vulnerabilities. In most cases customers are responsible for installing this update to the software, and their software is subject to these vulnerabilities until they do so. Additionally, in March 2020, a security researcher reported certain vulnerabilities related to our macOS version that could have allowed an unauthorized person to gain root access to a user’s system. We cannot be certain that we will be able to address any vulnerabilities in our software that we may become aware of in the future, or there may be delays in developing patches that can be effectively deployed to address vulnerabilities. We expect similar issues to arise in the future as our products and services are more widely adopted, and as we continue to expand the features and functionality of existing products and introduce new products. We expect to expend significant resources in an effort to protect against security incidents and to mitigate, detect, and remediate actual and potential vulnerabilities. Security incidents and vulnerabilities, and concerns regarding privacy, data protection, and information security may cause some of our customers and hosts to stop using our solutions and fail to upgrade or renew their subscriptions. This discontinuance in use or failure to upgrade or renew could substantially harm our business. Further, as we rely on third-party and public-cloud infrastructure, we depend in part on third-party security measures to protect against unauthorized access, cyberattacks, and the mishandling of data and information. In addition, failures to meet customers’ and hosts’ expectations with respect to security and confidentiality of their data and information could damage our reputation and affect our ability to retain customers and hosts, attract new customers and hosts, and grow our business. In addition, cybersecurity events or security vulnerabilities could result in breaches of our agreements with customers, lawsuits against us (including class action litigation), regulatory investigations or actions, and significant increases in costs, including costs for remediating the effects of such an event or vulnerability, lost revenue due to network downtime, and a decrease in customer, host, and user trust, increases in insurance premiums due to cybersecurity incidents, increased costs to address cybersecurity issues, and attempts to prevent future incidents, fines, penalties, judgments and settlements, and attorney fees, and harm to our business and our reputation because of any such incident.

Many governments have enacted laws requiring companies to provide notice of data security incidents involving certain types of personal data. Such laws are inconsistent, and compliance in the event of a widespread data breach is costly. In addition, some of our customers require us to notify them of data security breaches. Security compromises experienced by our competitors, our customers, or us may lead to public disclosures, which may lead to widespread negative publicity. In addition, while more than half of our employees are based in the United States, like many similarly situated technology companies, we have a sizable number of research and development personnel in China, which has exposed and could continue to expose us to governmental and regulatory as well as market and media scrutiny regarding the actual or perceived integrity of our platform or data security and privacy features. Any security compromise in our industry, whether actual or perceived, could harm our

reputation, erode confidence in the effectiveness of our security measures; negatively affect our ability to attract new customers and hosts; cause existing customers to elect not to renew their subscriptions; or subject us to third-party lawsuits, regulatory investigations, proceedings, and fines, or other action or liability, which could harm our business and reputation. Increased usage of our services, novel uses of our services, and additional awareness of Zoom and our brand could lead to greater public scrutiny of, press related to, or a negative perception of our information security and potential vulnerabilities associated with, our platform. For example, in connection with the COVID-19 pandemic, we opened our platform to unprecedented numbers of first-time users, leading to challenges for users who did not have full IT support or established protocols for security and privacy like our enterprise customers. As a result, we have experienced negative publicity related to meeting disruptions and security and privacy issues, including on encryption. Such unfavorable publicity and scrutiny could result in material reputational harm, a loss of customer and user confidence, increased regulatory or litigation exposure, additional expenses, and other harm to our business.

There can be no assurance that any limitations of liability provisions in our subscription agreements, terms of use or other agreements would be enforceable or adequate or would otherwise protect us from any such liabilities or damages with respect to any particular claim. We also cannot be sure that our existing general liability insurance coverage and coverage for cyber liability or errors or omissions will continue to be available on acceptable terms or will be available in sufficient amounts to cover one or more large claims or that the insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that are not covered or exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could harm our business.

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, our ability to expand our base of users will be impaired and our business will be harmed.

We believe that our brand identity and awareness have contributed to our success and have helped fuel our efficient go-to-market strategy. We connect people through frictionless and secure video, voice, chat, and content sharing. We also believe that maintaining and enhancing the Zoom brand is critical to expanding our base of customers, hosts, and users and, in particular, conveying to users and the public that the Zoom brand consists of a broad communications platform, rather than just one distinct product. For example, if users incorrectly view the Zoom brand primarily as a video conferencing point solution or utility rather than as a platform with multiple communications solutions, or have a negative perception of our privacy and security, then our market position may be detrimentally impacted at such time as a competitor introduces a new or better product. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. Any unfavorable publicity or perception of our platform, including any delays or interruptions in service due to capacity constraints stemming from increased usage due to the COVID-19 pandemic, or of our privacy or security features, or of the providers of communication and collaboration technologies generally, could adversely affect our reputation and our ability to attract and retain hosts. Similarly, any unfavorable perception of our company, including due to any actual or perceived violation by our employees of our policies, such as our Code of Business Conduct and Ethics, could cause us reputational harm and customer loss, impact our financial performance, expose us to litigation, and harm our business, among other things. If we fail to promote and maintain the Zoom brand, including consumer and public perception of our platform or our company, or if we incur excessive expenses in this effort, our business will be harmed.

We may not successfully manage our growth or plan for future growth.

Since our founding in 2011, we have experienced rapid growth. For example, our headcount has grown from 2,532 full-time employees as of January 31, 2020, to 4,422 full-time employees as of January 31, 2021, with employees located both in the United States and internationally. The growth and expansion of our business places a continuous, significant strain on our management, operational, and financial resources. Further growth of our operations to support our user base, our expanding third-party relationships, our information technology systems, and our internal controls and procedures may not be adequate to support our operations. In addition, as we continue to grow, we face challenges integrating, developing, and motivating a rapidly growing employee base in various countries around the world. For example, a significant number of our employees were hired in recent months and have never been to one of our office locations. Certain members of our management have not previously worked together for an extended period of time, and some do not have prior experience managing a public company, which may affect how they manage our growth. Managing our growth will also require significant expenditures and allocation of valuable management resources.

In addition, our rapid growth may make it difficult to evaluate our future prospects. Our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth. We have encountered in the past, and may encounter in the future, risks and uncertainties frequently experienced by growing companies in rapidly changing industries. If we fail to achieve the necessary level of efficiency in our organization as it grows, or if we are not able to accurately forecast future growth, our business would be harmed.

Our business may be significantly affected by a change in the economy, including any resulting effect on consumer or business spending.

Our business may be affected by changes in the economy generally, including as a result of the COVID-19 pandemic and any resulting effect on spending by our customers. While some of our customers may consider our platform to be a cost-saving purchase, decreasing the need for business travel, others may view a subscription to our platform as a discretionary purchase, and our customers may reduce their discretionary spending on our platform during an economic downturn. Given current economic conditions, we could experience a reduction in demand and loss of customers, especially if the effects of the current economic environment have a prolonged impact on various industries that our unified communications platform addresses. We would lose customers as a result of customers ceasing to do business, and we could experience a material increase in longer payment cycles and greater difficulty in collecting accounts receivable from certain customers. While we have seen increased usage stemming from the COVID-19 pandemic, a significant portion of the increase in usage of our platform is attributable to free Basic accounts, which do not generate any revenue. Moreover, there is no assurance that we will experience an increase in paid hosts once the pandemic tapers, particularly in light of the economic downturn. Similarly, given the shift in our customer base from largely businesses and enterprises to a mix of businesses, enterprises, and consumers due to the COVID-19 pandemic, we expect that we will see higher rates of non-renewals than we have experienced historically.

Our ability to sell subscriptions to our platform could be harmed by real or perceived material defects or errors in our platform.

The software technology underlying our platform is inherently complex and may contain material defects or errors, particularly when new products are first introduced or when new features or capabilities are released. We have from time to time found defects or errors in our platform, and new defects or errors in our existing platform or new products may be detected in the future by us or our users. There can be no assurance that our existing platform and new products will not contain defects. Any real or perceived errors, failures, vulnerabilities, or bugs in our platform have in the past resulted and could in the future result in negative publicity or lead to data security, access, retention, or other performance issues, all of which could harm our business. The costs incurred in correcting such defects or errors may be substantial and could harm our business. Moreover, the harm to our reputation and legal liability related to such defects or errors may be substantial and would harm our business.

We also utilize hardware purchased or leased and software and services licensed from third parties to offer our platform. Any defects in, or unavailability of, our or third-party hardware, software, or services that cause interruptions to the availability of our services, loss of data, or performance issues could, among other things:

- cause a reduction in revenue or delay in market acceptance of our platform;
- require us to issue refunds to our customers or expose us to claims for damages;
- cause us to lose existing hosts and make it more difficult to attract new customers and hosts;
- divert our development resources or require us to make extensive changes to our platform, which would increase our expenses;
- increase our technical support costs; and
- harm our reputation and brand.

If we were to lose the services of our Chief Executive Officer or other members of our senior management team, we may not be able to execute our business strategy.

Our success depends in a large part upon the continued service of key members of our senior management team. In particular, our founder, President and Chief Executive Officer, Eric S. Yuan, is critical to our overall management, as well as the continued development of our products, services, the Zoom platform, our culture, our strategic direction, engineering, and our global operations, including regions such as the United States, EMEA and APAC. All of our executive officers are at-will employees, and we do not maintain any key person life insurance policies. Any changes in our senior management team in particular, even in the ordinary course of business, may be disruptive to our business. While we seek to prepare for such transitions, including by establishing strong processes and procedures and succession planning, such changes may result in a loss of institutional knowledge and cause disruptions to our business. If our senior management team fails to work together effectively or execute our plans and strategies on a timely basis as a result of management turnover or otherwise, our business could be harmed.

The failure to attract and retain additional qualified personnel or to maintain our happiness-centric company culture could harm our business and culture and prevent us from executing our business strategy.

To execute our business strategy, we must attract and retain highly qualified personnel. Competition for executives, software developers, sales personnel, and other key employees in our industry is intense. In particular, we compete with many other companies for software developers with high levels of experience in designing, developing, and managing software for communication and collaboration technologies, as well as for skilled sales and operations professionals. At times, we have experienced, and we may continue to experience, difficulty in hiring and retaining employees with appropriate qualifications, and we may not be able to fill positions in a timely manner or at all. We completed our initial public offering (“IPO”) in April 2019 and potential candidates may not perceive our compensation package, including our equity awards, as favorably as employees hired prior to our IPO. In addition, our recruiting personnel, methodology, and approach may need to be altered to address a changing candidate pool and profile. We may not be able to identify or implement such changes in a timely manner. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business could be harmed.

Many of the companies with which we compete for experienced personnel have greater resources than we have, and some of these companies may offer more attractive compensation packages. Particularly in the San Francisco Bay Area, job candidates and existing employees carefully consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, or if the mix of equity and cash compensation that we offer is unattractive, it may adversely affect our ability to recruit and retain highly skilled employees. Job candidates may also be threatened with legal action under agreements with their existing employers if we attempt to hire them, which could impact hiring and result in a diversion of our time and resources. Additionally, laws and regulations, such as restrictive immigration laws, may limit our ability to recruit internationally. We must also continue to retain and motivate existing employees through our compensation practices, company culture, and career development opportunities. If we fail to attract new personnel or to retain our current personnel, our business would be harmed.

We believe that a critical component to our success and our ability to retain our best people is our culture. As we continue to grow and develop a public company infrastructure, we may find it difficult to maintain our happiness-centric company culture. Transparency is also an important part of our culture, and one that we practice every day. As we continue to grow, maintaining this culture of transparency will present its own challenges that we will need to address, including the type of information and level of detail that we share with our employees.

In addition, following our IPO, many of our employees are now able to receive significant proceeds from sales of our equity in the public markets, which may reduce their motivation to continue to work for us. Moreover, this liquidity could create disparities in wealth among our employees, which may harm our culture and relations among employees and our business.

We have significant and expanding operations outside the United States, which may subject us to increased business, regulatory and economic risks that could harm our business.

Our platform addresses the communications needs of users worldwide, and we see international expansion as a major opportunity. Our revenue from APAC and EMEA collectively represented 31%, 19%, and 18% of our total revenue for the fiscal years ended January 31, 2021, 2020, and 2019, respectively. We plan to add local sales support in further select international markets over time. Our customers include multinational corporations with global users, and we expect to continue to expand our international operations, which may include opening offices in new jurisdictions and providing our platform in additional languages to support the needs of these multinational corporations. Any new markets or countries into which we attempt to allow users to access our services or sell subscriptions to our platform may not be receptive. For example, if we are not able to satisfy certain government- and industry-specific requirements, we may experience service outages or other adverse consequences which would impair our ability to expand further into certain markets. In addition, our ability to manage our business and conduct our operations internationally in the future may require considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute systems, and commercial markets. Future international expansion will require investment of significant funds and other resources. We also face risks related to recruiting and retaining talented and capable employees outside the United States, including complying with complex employment- and compensation-related laws, regulations and practices in these international jurisdictions, and maintaining our company culture across all of our offices. We may also be unable to grant equity compensation to employees in certain countries outside of the United States due to the complexities of local laws and regulations. This may require us to offer equally compelling alternatives to supplement our compensation, such as long-term cash compensation plans or increased short-term cash compensation, in order to continue to attract and retain employees in these jurisdictions.

Operating internationally subjects us to new risks and may increase risks that we currently face, including risks associated with:

- providing our platform and operating our business across a significant distance, in different languages and among different cultures, including the potential need to modify our platform and features to ensure that they are culturally appropriate and relevant in different countries;
- compliance with applicable international laws and regulations, including laws and regulations with respect to privacy, information security, telecommunications requirements, data protection, consumer protection and unsolicited email, and the risk of penalties to us and individual members of management or employees if our practices are deemed to be out of compliance;
- operating in foreign jurisdictions where the government may impede or interrupt our ability to provide our services;
- management of an employee base in jurisdictions that may not give us the same employment and retention flexibility as does the United States;
- operating in jurisdictions that do not protect intellectual property rights to the same extent as does the United States and the practical enforcement of such intellectual property rights outside of the United States;
- foreign government interference with our non-core intellectual property that resides outside of the United States, such as the risk of changes in foreign laws that could restrict our ability to use our intellectual property outside of the foreign jurisdiction in which we developed it;
- integration with partners outside of the United States;
- compliance by us and our business partners with anti-corruption laws, import and export control laws, tariffs, trade barriers, economic sanctions, and other regulatory limitations on our ability to provide our platform in certain international markets;
- foreign exchange controls that might require significant lead time in setting up operations in certain geographic territories and might prevent us from repatriating cash earned outside the United States;
- political and economic instability, including as a result of the United Kingdom's ("U.K.") withdrawal from the European Union ("EU"), and other political tensions between countries in which we do business;
- changes in diplomatic and trade relationships, including the imposition of new trade restrictions, trade protection measures, import or export requirements, trade embargoes, and other trade barriers;
- generally longer payment cycles and greater difficulty in collecting accounts receivable, a risk that may increase as a result of the impact of the COVID-19 pandemic on our customers' ability to pay for our service on a timely basis;
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the income and other tax laws of the United States or the international jurisdictions in which we operate, including the imposition of digital services taxes; and
- higher costs of doing business internationally, including increased accounting, travel, infrastructure, and legal compliance costs.

Compliance with laws and regulations applicable to our global operations substantially increases our cost of doing business in international jurisdictions. We may be unable to keep current with changes in laws and regulations as they occur. Although we have implemented policies and procedures designed to support compliance with these laws and regulations, there can be no assurance that we will always maintain compliance or that all of our employees, contractors, partners, and agents will comply. Any violations could result in enforcement actions, fines, civil and criminal penalties, damages, injunctions, or reputational harm. If we are unable to comply with these laws and regulations or manage the complexity of our global operations successfully, we may need to relocate or cease operations in certain foreign jurisdictions. Additionally, while our engineering team is headquartered in the United States, we employ a product development team that has a relatively significant footprint in China today, where personnel costs are less expensive than in many other geographies. This product development team carries out the design and architecture decisions made by our U.S. engineering team. We recently announced our intent to expand our research and development presence in Phoenix, Arizona and Pittsburgh, Pennsylvania, as well as in Singapore and India. As a result of this expansion, we could experience, among other things, difficulty in attracting and retaining talent in these location and higher operating expenses, which would adversely impact our operating margins and harm our business.

At the same time, our operations in China have caused and may in the future cause us to be subject to regulatory scrutiny both in China and in the United States. For example, in September 2019, the Chinese government turned off our service in China without warning and requested that we take certain steps prior to restoring our service, including designating an in-house contact for law enforcement requests and transferring China-based user data housed in the United States to a data center in China. Also, in June and July 2020, we received subpoenas from the Department of Justice's U.S. Attorney's Office for the Eastern District of New York ("EDNY") and the Department of Justice's U.S. Attorney's Office for the Northern District of

California (“NDCA”). The EDNY and NDCA subpoenas requested information about (among other things) our interactions with foreign governments and/or foreign political parties, including the Chinese government, as well as about storage of and access to user data, including the use of servers based overseas. In addition, the EDNY subpoena requested information about the actions we took relating to the Tiananmen commemorations on Zoom. The NDCA subpoena also requested documents and information about (among other things) contacts between our employees and representatives of the Chinese government, and any attempted or successful influence by any foreign government in our policies, procedures, practices, and actions as they relate to users in the United States. We are fully cooperating with all of these investigations and have been conducting our own thorough internal investigation. These investigations are ongoing, and we do not know when they will be completed, which facts we will ultimately discover as a result of the investigations, or what actions the government may or may not take. We cannot predict the outcome of these investigations, and a negative outcome in any or all of these matters could cause us to incur substantial fines, penalties, or other financial exposure, as well as material reputational harm, a loss of customer and user confidence and business, additional expenses, and other harm to our business.

We recognize revenue from subscriptions to our platform over the terms of these subscriptions. Consequently, increases or decreases in new sales may not be immediately reflected in our results of operations and may be difficult to discern.

We recognize revenue from subscriptions to our platform over the terms of these subscriptions. 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 in any single quarter may have an immaterial impact on the revenue that we recognize for that quarter. However, such a decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and potential changes in our pricing policies or rate of customer expansion or retention may not be fully reflected in our results of operations until future periods. In addition, a significant portion of our costs is expensed as incurred, while revenue is recognized over the term of the subscription. As a result, growth in the number of new customers and hosts could continue to result in our recognition of higher costs and lower revenue in the earlier periods of our subscriptions. Finally, our subscription-based revenue model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers or from existing customers that increase their use of our platform or upgrade to a higher-priced tier of Zoom Meeting plan must be recognized over the applicable subscription term.

Any failure to offer high-quality support for our customers and hosts may harm our relationships with our customers and hosts and, consequently, our business.

We have designed our platform to be easy to adopt and use with minimal to no support necessary. However, if we experience increased user demand for support, we may face increased costs that may harm our results of operations. Surging demand during the COVID-19 pandemic has required us to allocate additional resources to support our expanded user base, including many hosts and customers who are using our platform for the first time. In addition, as we continue to grow our operations and support our global user base, we need to be able to continue to provide efficient support that meets our customers and hosts’ needs globally at scale. Customers and hosts receive additional support features, and the number of our hosts has grown significantly, which will put additional pressure on our support organization. If we are unable to provide efficient user support globally at scale or if we need to hire additional support personnel, including as a result of increased demand during the COVID-19 pandemic, our business may be harmed. Our new customer and host signups are highly dependent on our business reputation and on positive recommendations from our existing customers and hosts. Any failure to maintain high-quality support, or a market perception that we do not maintain high-quality support for our customers and hosts, would harm our business.

We utilize our network of resellers to sell our products and services, and our failure to effectively develop, manage, and maintain our indirect sales channels would harm our business.

Our future success depends on our continued ability to establish and maintain a network of channel relationships, and we expect that we will need to maintain and expand our network as we expand into international markets. A small portion of our revenue is derived from our network of sales agents and resellers, which we refer to collectively as resellers, many of which sell or may in the future decide to sell their own products and services or services from other communications solutions providers. Loss of or reduction in sales through these third parties could reduce our revenue. Our competitors may in some cases be effective in causing our reseller or potential reseller to favor their products and services or prevent or reduce sales of our products and services. Recruiting and retaining qualified resellers in our network and training them in our technology and product offerings requires significant time and resources. If we decide to further develop and expand our indirect sales channels, we must continue to scale and improve our processes and procedures to support these channels, including investment in systems and training. Many resellers may not be willing to invest the time and resources required to train their staff to effectively sell our platform. If we fail to maintain relationships with our resellers, fail to develop relationships with new

resellers in new markets, or expand the number of resellers in existing markets or fail to manage, train, or provide appropriate incentives to our existing resellers, our ability to increase the number of new customers and hosts and increase sales to existing customers could be adversely impacted, which would harm our business.

Our results of operations, which are reported in U.S. dollars, could be adversely affected if currency exchange rates fluctuate substantially in the future.

We sell to customers globally and have international operations primarily in Australia, China, and the U.K. As we continue to expand our international operations, we will become more exposed to the effects of fluctuations in currency exchange rates. Although the majority of our cash generated from revenue is denominated in U.S. dollars, a small amount is denominated in foreign currencies, and our expenses are generally denominated in the currencies of the jurisdictions in which we conduct our operations. For the fiscal years ended January 31, 2021, 2020, and 2019, 20.2%, 9.4%, and 6.4% of our revenue, respectively, and 11.9%, 17.5%, and 12.3% of our expenses, respectively, were denominated in currencies other than U.S. dollars. Because we conduct business in currencies other than U.S. dollars but report our results of operations in U.S. dollars, we also face remeasurement exposure to fluctuations in currency exchange rates, which could hinder our ability to predict our future results and earnings and could materially impact our results of operations. We do not currently maintain a program to hedge exposures to non-U.S. dollar currencies.

Our sales to government entities are subject to a number of additional challenges and risks.

We expect to increase our sales to U.S. federal and state and foreign governmental agency customers. For example, we announced in May 2019 that we received authorization under the U.S. Federal Risk and Authorization Management Program (“FedRAMP”) that allows U.S. federal government agencies and contractors to securely use our Zoom for Government offering. The additional risks and challenges associated with doing business with governmental entities include, but are not limited to, the following:

- selling to governmental entities can be more competitive, expensive, and time-consuming than selling to private entities, often requiring significant up-front time and expense without any assurance that these efforts will generate a sale;
- government certification requirements may change, or we may be unable to achieve or sustain one or more government certifications, including FedRAMP, and in doing so restrict our ability to sell into the government sector until we have attained such certificates;
- governmental entities may have significant leverage in negotiations, thereby enabling such entities to demand contract terms that differ from what we generally agree to in our standard agreements, including, for example, most-favored-nation clauses; and
- government demand and payment for our products may be influenced by public sector budgetary cycles and funding authorizations, with funding reductions or delays having an adverse impact on public sector demand for our products.

To the extent that we become more reliant on contracts with government entities in the future, our exposure to such risks and challenges could increase, which in turn could adversely impact our business.

Our current products, as well as products, features, and functionality that we may introduce in the future, may not be widely accepted by our customers and hosts or may receive negative attention or may require us to compensate or reimburse third parties, any of which may lower our margins and harm our business.

Our ability to engage, retain, and increase our base of customers and hosts and to increase our revenue will depend on our ability to successfully create new products, features, and functionality, both independently and together with third parties. We may introduce significant changes to our existing products or develop and introduce new and unproven products, including technologies with which we have little or no prior development or operating experience. These new products and updates may not perform as expected, may fail to engage, retain, and increase our base of customers and hosts or may create lag in adoption of such new products. New products may initially suffer from performance and quality issues that may negatively impact our ability to market and sell such products to new and existing customers and hosts. The short- and long-term impact of any major change to our products, or the introduction of new products, is particularly difficult to predict. If new or enhanced products fail to engage, retain, and increase our base of customers and hosts, or do not perform as expected, we may fail to generate sufficient revenue, operating margin, or other value to justify our investments in such products, any of which may harm our business in the short term, long term, or both. In addition, our current products, as well as products, features, and functionality that we may introduce in the future, may require us to compensate or reimburse third parties. For example, our cloud phone system, Zoom Phone, is a PBX phone solution that requires us to compensate carriers that operate the PSTN. As a result, a portion of the payments that we will receive from customers that will use our Zoom Phone product will be allocated towards compensating these telephone carriers, which lowers our margins for Zoom Phone as compared to our other products. In

addition, new products that we introduce in the future may similarly require us to compensate or reimburse third parties, all of which would lower our profit margins for any such new products. If this trend continues with our new and existing products, including Zoom Phone, it could harm our business.

If we experience excessive fraudulent activity or cannot meet evolving credit card association merchant standards, we could incur substantial costs and lose the right to accept credit cards for payment, which could cause our customer and paid host base to decline significantly.

A large portion of our customers authorize us to bill their credit card accounts directly for our products. If customers pay for their subscriptions with stolen credit cards, we could incur substantial third-party vendor costs for which we may not be reimbursed. Further, our customers provide us with credit card billing information online or over the phone, and we do not review the physical credit cards used in these transactions, which increases our risk of exposure to fraudulent activity. We also incur charges, which we refer to as chargebacks, from the credit card companies for claims that the customer did not authorize the credit card transaction for our products, something that we have experienced in the past. If the number of claims of unauthorized credit card transactions becomes excessive, we could be assessed substantial fines for excess chargebacks, and we could lose the right to accept credit cards for payment. In addition, credit card issuers may change merchant standards, including data protection and documentation standards, required to utilize their services from time to time. If we fail to maintain compliance with current merchant standards or fail to meet new standards, the credit card associations could fine us or terminate their agreements with us, and we would be unable to accept credit cards as payment for our products. Our products may also be subject to fraudulent usage and schemes, including third parties accessing customer accounts or viewing and recording data from our communications solutions. These fraudulent activities can result in unauthorized access to customer accounts and data, unauthorized use of our products, and charges and expenses to customers for fraudulent usage. We may be required to pay for these charges and expenses with no reimbursement from the customer, and our reputation may be harmed if our products are subject to fraudulent usage. Although we implement multiple fraud prevention and detection controls, we cannot assure you that these controls will be adequate to protect against fraud. Substantial losses due to fraud or our inability to accept credit card payments would cause our customer base to significantly decrease and would harm our business.

We may have exposure to greater than anticipated tax liabilities, which could harm our business.

While to date we have not incurred significant income taxes in operating our business, we are subject to income taxes in the United States and various jurisdictions outside of the United States. Our effective tax rate could fluctuate due to changes in the proportion of our earnings and losses in countries with differing statutory tax rates. Our tax expense could also be impacted by changes in non-deductible expenses; changes in excess tax benefits of stock-based compensation expense; changes in the valuation of, or our ability to use, deferred tax assets; the applicability of withholding taxes and effects from acquisitions.

The provision for taxes on our consolidated financial statements could also be impacted by changes in accounting principles; changes in U.S. federal, state, or international tax laws applicable to corporate multinationals, such as the recent legislation enacted in the United States, other fundamental changes in law currently being considered by many countries; and changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions. In addition, we are subject to review and audit by U.S. federal, state, local, and foreign tax authorities. Such tax authorities may disagree with tax positions we take, and if any such tax authority were to successfully challenge any such position, our business could be harmed.

We may also be subject to additional tax liabilities due to changes in non-income-based taxes resulting from changes in federal, state, or international tax laws; changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions; results of tax examinations, settlements, or judicial decisions; changes in accounting principles, changes to our business operations, including acquisitions; as well as the evaluation of new information that results in a change to a tax position taken in a prior period. Further, the Organization for Economic Co-operation and Development ("OECD") and the Inclusive Framework of G20 and other countries have issued proposals related to the taxation of the digital economy. In addition, several countries have proposed or enacted Digital Services Taxes ("DST"), many of which would apply to revenues derived from digital services. Future developments related to such proposals, in particular any unilateral actions outside of the OECD's Inclusive Framework such as the imposition of DST rules, could have an adverse impact on our business by increasing our future tax obligations.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of January 31, 2021, we had \$1,264.3 million of U.S. federal and \$797.0 million of state net operating loss carryforwards available to reduce future taxable income, which will begin to expire in 2032 for federal and 2027 for state tax purposes. It is possible that we will not generate taxable income in time to use these net operating loss carryforwards before their expiration or at all. Under legislative changes made in December 2017, as modified by the federal tax law changes enacted in March 2020, U.S. federal net operating losses incurred in tax years beginning after December 31, 2017 and in future years may be carried forward indefinitely, but, for tax years beginning after December 31, 2020, the deductibility of such net operating losses is limited. In addition, the federal and state net operating loss carryforwards and certain tax credits may be

subject to significant limitations under Section 382 and Section 383 of the Internal Revenue Code of 1986, as amended (the “Code”), respectively, and similar provisions of state law. Under those sections of the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset its post-change income or tax may be limited. In general, an “ownership change” will occur if there is a cumulative change in our ownership by “5-percent shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. We have completed a Section 382 review and have determined that none of the operating losses will expire solely due to Section 382 limitation(s). However, we may experience ownership changes in the future as a result of future shifts in our stock ownership, some of which may be outside of our control. If an ownership change occurs and our ability to use our net operating loss carryforwards and tax credits is materially limited, it would harm our business by effectively increasing our future tax obligations.

In addition, for state income tax purposes, there may be periods during which the use of net operating losses is suspended or otherwise limited, including a recent California franchise tax law change limiting the usability of California state net operating losses to offset California taxable income in taxable years beginning on or after January 1, 2020 and before January 1, 2023, which could accelerate or permanently increase state taxes owed.

We recorded a valuation allowance against all of our deferred tax assets for the U.S. and U.K. as of both January 31, 2021 and January 31, 2020. We intend to continue maintaining a full valuation allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. In our valuation allowance evaluation, we give more weight to evidence that can be objectively verified than to evidence that cannot be objectively verified. Our consideration of the evidence requires management to make a number of significant judgments, estimates, and assumptions about highly complex and inherently uncertain matters. Given our current earnings and anticipated future earnings, we believe that there is a reasonable possibility that in the foreseeable future, sufficient positive evidence may become available that results in a conclusion that a portion of the valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability (pretax income adjusted for permanent differences) that we are able to actually achieve.

We have acquired and may continue to acquire other businesses or receive offers to be acquired, which could require significant management attention, disrupt our business, or dilute stockholder value.

We have made and may continue in the future to make acquisitions of other companies, products, and technologies. For example, we announced our acquisition of Keybase Inc in May 2020. We have limited experience in acquisitions. We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by users, developers, or investors. In addition, we may not be able to integrate acquired businesses successfully or effectively manage the combined company following an acquisition. If we fail to successfully integrate our acquisitions, or the people or technologies associated with those acquisitions, into our company, the results of operations of the combined company could be adversely affected. Any integration process will require significant time and resources, require significant attention from management and disrupt the ordinary functioning of our business, and we may not be able to manage the process successfully, which could harm our business. In addition, we may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges.

We may have to pay cash, incur debt, or issue equity securities to pay for any such acquisition, each of which could affect our financial condition or the value of our capital stock. The sale of equity to finance any such acquisitions could result in dilution to our stockholders. If we incur more debt, it would result in increased fixed obligations and could also subject us to covenants or other restrictions that would impede our ability to flexibly operate our business.

We have a limited operating history at the current scale of our business, which makes it difficult to evaluate our prospects and future results of operations.

Beginning in the fiscal quarter ended April 30, 2020, we faced unprecedented usage of our video-first unified communications platform largely due to the COVID-19 pandemic. This usage dramatically changed the scale of our business, and we have a limited operating history at the current scale of our business. As a result, our ability to forecast our future results of operations is limited and subject to a number of uncertainties, including our ability to plan for and model future growth and expenses. Our historical revenue growth should not be considered indicative of our future performance. Further, in future periods, our revenue growth could slow or our revenue could decline for a number of reasons, including any reduction in demand for our platform; increased competition; contraction of our overall market; our inability to accurately forecast demand for our platform and plan for capacity constraints; or our failure, for any reason, to capitalize on growth opportunities. The COVID-19 pandemic has also made it difficult to forecast revenue, costs, and expenses, as our platform has recently faced

unprecedented usage from free users and new and existing customers, requiring us to devote significant resources to bolster our capacity and infrastructure. 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 business would be harmed.

Risks Related to Laws and Regulations

The actual or perceived failure by us, our customers, partners or vendors to comply with stringent and evolving privacy, data protection, and information security laws, regulations, standards, policies, and contractual obligations could harm our reputation and business or subject us to significant fines and liability.

We receive, store, process, generate, use, and share personal information and other customer and user content necessary to provide our service and ensure it is delivered effectively, to operate our business, for legal and marketing purposes, and for other business-related purposes. There are numerous federal, state, local, and international laws and regulations regarding privacy, data protection, information security and the collection, storing, sharing, use, processing, transfer, disclosure, and protection of personal information and other content, the scope of which is changing, subject to differing applications and interpretations and may be inconsistent among countries, or conflict with other rules. We are also subject to the terms of our privacy policies and contractual obligations to third parties related to privacy, data protection, and information security. We strive to comply with applicable laws, certifications, documentation, publications, regulations, standards, policies and other obligations relating to privacy, data protection, and information security to the extent possible. Although we endeavor to comply with applicable laws and our policies, publications, certifications, and documentation, and other obligations, we may at times fail to do so or may be perceived to have failed to do so. Moreover, despite our efforts, we may not be successful in achieving compliance if our employees, vendors or business partners do not comply with our policies, certifications, and documentation. Such actual or perceived failures in certain cases have subjected, and can subject, us to potential international, local, state and federal legal or regulatory action, including in the event that our policies, certifications, and documentation are found or alleged to be inaccurate, incomplete, deceptive, unfair, or misrepresentative of our actual practices. The regulatory framework for privacy and data protection worldwide is, and is likely to remain, uncertain for the foreseeable future, which we expect will increase our compliance costs and exposure to liability, and it is possible that these or other actual or alleged obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. Increased usage of our services, novel uses of our services, and additional awareness of Zoom and our brand stemming from the COVID-19 pandemic could make it more difficult for us to comply with our contractual obligations, our policies, our publications, our certifications, our documentation, standards, regulations, and applicable laws related to privacy, data protection, and information security, and has and could result in greater public scrutiny of, press related to, or a negative perception of our privacy, data protection, and information security practices. Any compliance failure, as well as greater public scrutiny of our privacy, data protection, and information security practices, could result in increased governmental and regulatory scrutiny and litigation exposure, as well as material reputational harm, a loss of customer and user confidence and business, additional expenses, and other harm to our business.

For example, in June 2020 we received a grand jury subpoena from the Department of Justice's U.S. Attorney's Office for EDNY, which requested information regarding our interactions with foreign governments and foreign political parties, including the Chinese government, as well as information regarding storage of and access to user data, the development and implementation of Zoom's privacy policies, and the actions we took relating to the Tiananmen commemorations on Zoom. In July 2020, we received subpoenas from the Department of Justice's U.S. Attorney's Office for the NDCA and the SEC. Both subpoenas seek documents and information relating to various security, data protection and privacy matters, including our encryption, and our statements relating thereto, as well as calculation of usage metrics and related public statements. In addition, the NDCA subpoena seeks information relating to any contacts between our employees and representatives of the Chinese government, and any attempted or successful influence by any foreign government in our policies, procedures, practices, and actions as they relate to users in the United States. We have since received additional subpoenas from EDNY and NDCA seeking related information. We are fully cooperating with all of these investigations and have been conducting our own thorough internal investigation. These investigations are ongoing, and we do not know when they will be completed, which facts we will ultimately discover as a result of the investigations, or what actions the government may or may not take. We cannot predict the outcome of these investigations, and a negative outcome in any or all of these matters could cause us to incur substantial fines, penalties, or other financial exposure, as well as material reputational harm, a loss of customer and user confidence and business, additional expenses, and other harm to our business.

We also expect that there will continue to be new or amended laws, regulations, industry standards, guidance and contractual obligations concerning privacy, data protection, and information security proposed and enacted in various jurisdictions. For example, in May 2018, the General Data Protection Regulation ("GDPR") went into effect in the EU. The GDPR imposes more stringent data protection requirements and requires us and our customers to give more detailed disclosures

about how we collect, use and share personal information; contractually commit to data protection measures in our contracts with clients; maintain adequate data security measures; notify regulators and affected individuals of certain data breaches; meet extensive privacy governance and documentation requirements; and honor individuals' data protection rights, including their rights to access, correct and delete their personal information. The GDPR provides greater penalties for noncompliance than previous data protection laws. Companies that violate the GDPR can face private litigation, restrictions on data processing, and fines of up to the greater of 20 million Euros or 4% of their worldwide annual revenue. Our or our customers', partners', or vendors' failure to comply with the GDPR could lead to significant fines imposed by regulators or restrictions on our ability to process personal information as needed to provide our product and services. We may also be obligated to assist our customers, partners, and vendors with their own compliance obligations under the GDPR, which could require expenditure of significant resources. Assisting our customers, partners, and vendors in complying with the GDPR, or complying with the GDPR ourselves, may cause us to incur substantial operational costs or require us to change our business practices.

Further, the U.K.'s decision to leave the EU, often referred to as Brexit, has created uncertainty in data protection issues involving the U.K. For example, pursuant to a post-Brexit trade deal between the U.K. and the EU, transfers of personal information from the European Economic Area to the U.K. are not considered restricted transfers under the GDPR for a period of up to six months from January 1, 2021. However, unless the EU Commission makes an adequacy finding with respect to the U.K. before the end of that period, the U.K. will be considered a "third country" under the GDPR and transfers of European personal information to the U.K. will require an adequacy mechanism to render such transfers lawful under the GDPR. Additionally, although the U.K. enacted a Data Protection Act in May 2018 that is designed to be consistent with the GDPR, uncertainty remains regarding how data transfers to and from the U.K. will be regulated notwithstanding Brexit. The effects of Brexit have been and are expected to continue to be far-reaching. Brexit and the perceptions as to its impact may adversely affect business activity and economic conditions globally, and could continue to contribute to instability in global financial markets. Brexit could also have the effect of disrupting the free movement of goods, services, and people between the U.K. and the EU. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which EU laws to replace or replicate. The full effects of Brexit are uncertain and will remain so until the U.K. and EU reach a definitive resolution with regards to outstanding trade and legal matters. Given these possibilities and others we may not anticipate, as well as the lack of comparable precedent, the full extent to which our business, results of operations, and financial condition could be adversely affected by Brexit is uncertain.

European data protection laws, including the GDPR, generally restrict the transfer of personal information from Europe, including the European Economic Area, U.K. and Switzerland, to the United States and most other countries unless the parties to the transfer have implemented specific safeguards to protect the transferred personal information. One of the primary safeguards allowing U.S. companies to import personal information from Europe has been certification to the EU-U.S. Privacy Shield and Swiss-U.S. Privacy Shield frameworks administered by the U.S. Department of Commerce. However, in July 2020, the Court of Justice of the European Union issued a decision invalidating the EU-U.S. Privacy Shield framework. The same decision also raised questions about whether one of the primary alternatives to the EU-U.S. Privacy Shield, namely, the European Commission's Standard Contractual Clauses, can lawfully be used for personal information transfers from Europe to the United States or most other countries. Similarly, on September 8, 2020, the Swiss Federal Data Protection and Information Commissioner announced that the Swiss-U.S. Privacy Shield Framework is inadequate for personal information transfers from Switzerland to the United States, and also raised questions about the viability of the Standard Contractual Clauses. At present, there are few, if any, viable alternatives to the EU-U.S. Privacy Shield, Swiss-U.S. Privacy Shield, and the Standard Contractual Clauses, all of which are mechanisms on which we have relied for personal information transfers from Europe to the United States and other countries. Authorities in the U.K. may similarly invalidate use of the EU-U.S. Privacy Shield and raise questions on the viability of the Standard Contractual Clauses, as mechanisms for lawful personal information transfers to the United States and other countries. In November 2020, EU regulators proposed a new set of Standard Contractual Clauses ("SCCs"). The new SCCs impose additional obligations and requirements with respect to the transfer of EU personal data to other jurisdictions, which may increase the legal risks and liabilities under the GDPR and local EU laws associated with cross-border data transfers, and result in material increased compliance and operational costs. If we are unable to implement a valid solution for personal information transfers from Europe, we will face increased exposure to regulatory actions, substantial fines, and injunctions against processing or transferring personal information from Europe, and we may be required to increase our data processing capabilities in Europe at significant expense. Inability to import personal information from Europe to the United States or other countries may decrease demand for our products and services as our customers that are subject to the GDPR may seek alternatives that do not involve personal information transfers out of Europe. Our inability to import personal information to the United States and other countries may decrease the functionality or effectiveness of our products and services and adversely impact our marketing efforts, plans and activities. We expect EU regulators to aggressively enforce EU laws prohibiting data transfers to the U.S. and other countries without a legally sound transfer mechanism, and it possible that EU regulators could prevent Zoom from transferring any personal data out of the EU to certain countries like the U.S.

Additionally, other countries outside of Europe have enacted or are considering enacting similar cross-border data transfer restrictions and laws requiring local data residency and restricting cross-border data transfer, which could increase the

cost and complexity of delivering our services and operating our business. For example, Brazil recently enacted the General Data Protection Law (Lei Geral de Proteção de Dados Pessoais or LGPD) (Law No. 13,709/2018), which broadly regulates the processing of personal information and imposes compliance obligations and penalties comparable to those of the GDPR.

States have also begun to introduce more comprehensive privacy legislation. For example, the California Consumer Privacy Act of 2018 (“CCPA”), which went into effect on January 1, 2020, affords consumers expanded privacy protections. The CCPA gives California residents, among other things, expanded rights to access and require deletion of their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is used. The CCPA also provides for civil penalties for violations, as well as a private right of action for data breaches that may increase data breach litigation. The CCPA will be expanded substantially on January 1, 2023 when the California Privacy Rights Act of 2020 (the “CPRA”), which was approved by California voters in November 2020, becomes fully operative. The CPRA will, among other things, give consumers the ability to limit use of information deemed to be sensitive, increase the maximum penalties for violations concerning consumers under age 16, establish the California Privacy Protection Agency to implement and enforce the new law, and impose administrative fines. Aspects of the CCPA and CPRA, and their interpretation and enforcement remain uncertain. The potential effects of the CCPA and CPRA are far-reaching and may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply.

The CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States, as other states may follow California’s lead and increase protections for their residents. The CCPA has already prompted a number of proposals for new federal and state privacy legislation that, if passed, could increase our potential liability, increase our compliance costs and adversely affect our business. In addition, effective October 1, 2019, Nevada amended its existing Security of Personal Information Law (“SPI Law”) to now require, among other things, that businesses provide an online mechanism or toll-free phone number to intake requests from consumers to opt out of the sale of their personal data. Virginia has similarly enacted a comprehensive privacy law, the Consumer Data Protection Act, which emulates the CCPA and CPRA in many respects and takes effect on January 1, 2023.

The Children’s Online Privacy Protection Act (“COPPA”) is a U.S. Federal law that applies to operators of commercial websites and online services directed to U.S. children under the age of 13 that collect personal information from children, and to operators of general audience websites with actual knowledge that they are collecting personal information from U.S. children under the age of 13. We provide video communications services to schools, school districts, and school systems to support traditional, virtual, and hybrid classrooms, distance learning, educational office hours, guest lectures, and other services. As part of these services, Zoom may be used by students, including students under the age of 13, and we collect personal information from such students on behalf of our school subscribers. School subscribers must contractually consent to Zoom’s information practices on behalf of students, prior to students using the services. In addition, the GDPR prohibits certain processing of the personal information of children under the age of 13-16 (depending on the country) without parental consent. The CCPA requires companies to obtain the consent of children in California under 16 (or parental consent for children under 13) before selling their personal information. COPPA is subject to interpretation by courts and other governmental authorities, including the FTC, and the FTC is authorized to promulgate, and has promulgated, revisions to regulations implementing provisions of COPPA. Although we strive to ensure that our platform and applications are compliant with applicable provisions of COPPA, HIPAA, GDPR, and CCPA, these provisions may be modified, interpreted, or applied in new manners that we may be unable to anticipate or prepare for appropriately, and we may incur substantial costs or expenses in attempting to modify our systems, platform, applications, or other technology to address changes in COPPA, HIPAA, GDPR, and CCPA, or interpretations thereof. If we fail to accurately anticipate the application, interpretation, or legislative expansion of COPPA, HIPAA, GDPR, and CCPA, we could be subject to governmental enforcement actions, data processing restrictions, litigation, fines and penalties, adverse publicity or loss of customers. Moreover, as a result of any such failures, we could be in breach of our K-12 school customer contracts, and our customers could lose trust in us, which could harm our reputation and business.

With laws and regulations, such as the GDPR in the EU as well as the CCPA, SPI Law, HIPAA, and COPPA in the United States imposing relatively burdensome obligations, and with substantial uncertainty over the interpretation and application of these and other laws and regulations, we have faced and may face additional challenges in addressing their requirements and making necessary changes to our policies and practices, and may incur significant costs and expenses in an effort to do so, any of which could materially adversely affect our business and operating results. Additional uses of our services arising out of increased demand associated with the COVID-19 pandemic may require us to address additional privacy, data protection, and information security laws, regulations, standards, policies, and contractual obligations. Any failure or perceived failure by us to comply with such laws, regulations, standards, policies, and contractual obligations, or our privacy policies, publications, certifications, or documentation have led and could lead to governmental investigations or enforcement actions (including investigations or actions by state attorneys general, federal regulators, and international regulators), litigation (including class action litigation), claims, or public statements against us by consumer advocacy groups or others, and could result in significant liability, fines or penalties, or cause our users to lose trust in us, which could have an adverse effect on our reputation and business.

We have in the past and may in the future receive inquiries or be subject to investigations by domestic and international government entities regarding, among other things, our privacy, data protection, and information security practices. The result of these proceedings could impact our brand reputation, subject us to monetary remedies and costs, interrupt or require us to change our business practices, divert resources and the attention of management from our business, or subject us to other remedies that adversely affect our business. We also face litigation regarding our privacy and security practices, including alleged data sharing with third parties, in various jurisdictions. See Part I, Item 3 “Legal Proceedings” for additional information.

We also have been the subject of an investigation by the FTC relating to our privacy and security representations and practices. We have reached a settlement agreement with the FTC, which the FTC voted to make final on January 19, 2021. See Part I, Item 3 “Legal Proceedings” for additional information. We could fail or be perceived to fail to comply with the terms of the settlement with the FTC or any other orders or settlements relating to litigation or governmental investigations with respect to our privacy and security practices. Any failure or perceived failure to comply with such orders or settlements may increase the possibility of additional adverse consequences, including litigation, additional regulatory actions, injunctions, or monetary penalties, or require further changes to our business practices, significant management time, or the diversion of significant operational resources. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, policies, and other obligations that are applicable to the businesses of our users may limit the adoption and use of, and reduce the overall demand for, our platform and services, which could have an adverse impact on our business.

Additionally, we rely on the administrators of our customers in the healthcare and education industries to obtain the necessary consents from users of our products and services and to ensure their account settings are configured correctly for their compliance under applicable laws and regulations, including HIPAA. Furthermore, if third parties we work with, such as vendors or developers, make misrepresentations, violate applicable laws and regulations, or our policies, such misrepresentations and violations may also put our users’ content at risk and could in turn have an adverse effect on our business. Any significant change to applicable laws, regulations, or industry practices regarding the collection, use, retention, security, or disclosure of our users’ content, or regarding the manner in which the express or implied consent of users for the collection, use, retention, or disclosure of such content is obtained, could increase our costs and require us to modify our services and features, possibly in a material manner, which we may be unable to complete and may limit our ability to store and process user data or provide or develop new services and features.

Increased usage of our services and additional awareness of Zoom and our brand stemming from the COVID-19 pandemic has led to greater public scrutiny of, press related to, or a negative perception of our collection, use, storage, disclosure, and processing of personal information, and our privacy policies and practices. For example, users and customers, particularly those that are new to Zoom, may not have significant IT or security knowledge or have their own IT controls like those of a larger organization to configure our service in a manner that provides them with control over user settings. This has resulted in reports of users and customers experiencing meeting disruptions by malicious actors. Additional unfavorable publicity and scrutiny has led to increased governmental and regulatory scrutiny and litigation exposure, and could result in material reputational harm, a loss of customer and user confidence, additional expenses and other harm to our business.

Changes in government trade policies, including the imposition of tariffs and export restrictions, could limit our ability to sell our products to certain customers, which may materially adversely affect our sales and results of operations.

The U.S. or foreign governments may take administrative, legislative, or regulatory action that could materially interfere with our ability to sell products in certain countries. For example, while we stopped selling our products directly in China during the six months ended July 31, 2020, the prior U.S. administration had threatened tougher trade terms with China and other countries, leading to the imposition, or announcement of future imposition, of substantially higher U.S. Section 301 tariffs on roughly \$500 billion of imports from China. In response, China imposed and proposed new or higher tariffs on U.S. products. The direct and indirect effects of tariffs and other restrictive trade policies are difficult to measure and are only one part of a larger U.S./China economic and trade policy disagreement. The effects of tariffs are uncertain because of the dynamic nature of governmental action and responses. Sustained uncertainty about, or worsening of, current global economic conditions and further escalation of trade tensions between the United States and its trading partners, especially China, could result in a global economic slowdown and long-term changes to global trade, including retaliatory trade restrictions that restrict our ability to operate in China. We cannot predict what actions may ultimately be taken by the new U.S. administration with respect to tariffs or trade relations between the United States and China or other countries, what products may be subject to such actions, or what actions may be taken by the other countries in retaliation. Any further deterioration in the relations between the United States and China could exacerbate these actions and other governmental intervention. For example, the implementation of China’s national-security law in Hong Kong has created additional U.S.-China tensions and could potentially increase the risks associated with the business and operations of U.S.-based technology companies in China. Any alterations to our business strategy or operations made in order to adapt to or comply with any such changes would be time-consuming and expensive, and certain of our competitors may be better suited to withstand or react to these changes.

Further, in May 2019, former President Trump issued an executive order that invoked national emergency economic powers to implement a framework to regulate the acquisition or transfer of information communications technology in transactions that imposed undue national security risks. The executive order is subject to implementation by the Secretary of Commerce and applies to contracts entered into prior to the effective date of the order. In addition, the U.S. Commerce Department has implemented additional restrictions and may implement further restrictions that would affect conducting business with certain Chinese companies. Due to the uncertainty regarding the timing, content, and extent of any such changes in policy, we cannot assure you that we will successfully mitigate any negative impact. Depending upon their duration and implementation, these tariffs, the executive order and its implementation, and other regulatory actions could materially affect our business, including in the form of increased cost of revenue, decreased margins, increased pricing for customers, and reduced sales.

Our results of operations may be harmed if we are required to collect sales or other related taxes for our subscription services in jurisdictions where we have not historically done so.

We collect sales tax in a number of jurisdictions. One or more states or countries may seek to impose incremental or new sales, use, or other tax collection obligations on us. A successful assertion by a state, country, or other jurisdiction that we should have been or should be collecting additional sales, use, or other taxes could, among other things, result in substantial tax payments, create significant administrative burdens for us, discourage potential customers from subscribing to our platform due to the incremental cost of any such sales or other related taxes, or otherwise harm our business.

We may be subject to liabilities on past sales for taxes, surcharges, and fees.

We currently collect and remit applicable indirect taxes in jurisdictions where we, through our employees, have a presence and where we have determined, based on legal precedents in the jurisdiction, that sales of our platform are classified as taxable. We believe that we are not otherwise subject to, or required to collect, any additional taxes, fees, or surcharges imposed by state and local jurisdictions because we do not have a sufficient physical presence or “nexus” in the relevant taxing jurisdiction or such taxes, fees, or surcharges do not apply to sales of our platform in the relevant taxing jurisdiction. However, there is uncertainty as to what constitutes sufficient physical presence or nexus for a state or local jurisdiction to levy taxes, fees, and surcharges for sales made over the internet, and there is also uncertainty as to whether our characterization of our platform as not taxable in certain jurisdictions will be accepted by state and local taxing authorities.

Taxing authorities may challenge our position that we do not have sufficient nexus in a taxing jurisdiction or that our platform is not taxable in the jurisdiction which could result in increased tax liabilities for us or our customers and hosts, which could harm our business.

The application of indirect taxes (such as sales tax, use tax, telecommunications tax, VAT, GST, and gross receipts tax) to businesses that transact online, such as ours, is a complex and evolving area. Following the recent U.S. Supreme Court decision in *South Dakota v. Wayfair, Inc.*, states are now free to levy taxes on sales of goods and services based on an “economic nexus,” regardless of whether the seller has a physical presence in the state. As a result, it may be necessary to reevaluate whether our activities give rise to sales, use, and other indirect taxes as a result of any nexus in those jurisdictions in which we are not currently registered to collect and remit taxes. Additionally, we may need to assess our potential tax collection and remittance liabilities based on existing economic nexus laws’ dollar and transaction thresholds. We continue to analyze our exposure for such taxes and liabilities and have accrued \$58.1 million and \$34.0 million as of January 31, 2021 and 2020, respectively, for loss contingencies resulting from these potential taxes and liabilities. The application of existing, new, or future laws, whether in the United States or internationally, could harm our business. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

We are subject to governmental export and import controls that could impair our ability to compete in international markets due to licensing requirements and subject us to liability if we are not in compliance with applicable laws.

Our platform and associated products are subject to various restrictions under U.S. export control and sanctions laws and regulations, including the U.S. Department of Commerce’s Export Administration Regulations (“EAR”) and various economic and trade sanctions regulations administered by the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”). The U.S. export control laws and U.S. economic sanctions laws include restrictions or prohibitions on the sale or supply of certain products and services to U.S.-embargoed or U.S.-sanctioned countries, governments, persons, and entities, and also require authorization for the export of certain encryption items. In addition, various countries regulate the import of certain encryption technology, including through import permitting and licensing requirements and have enacted or could enact laws that could limit our ability to distribute our platform or could limit our hosts’ ability to implement our platform in those countries.

Although we have taken precautions to prevent our platform and associated products from being accessed or used in violation of such laws, we have inadvertently allowed our platform and associated products to be accessed or used by some customers in apparent violation of U.S. economic sanction laws. In addition, we may have inadvertently made our software products available to some customers, including users in embargoed or sanctioned countries, in apparent violation of the EAR. As a result, we submitted initial and final voluntary self-disclosures concerning potential violations of U.S. sanctions and export control laws and regulations to OFAC and the U.S. Department of Commerce's Bureau of Industry and Security ("BIS").

In June 2019, OFAC and BIS issued us warning letters as their final enforcement responses to these potential violations, but no fines or penalties were assessed. If we are found to be in violation of U.S. economic sanctions or export control laws in the future, it could result in fines and penalties. We may also be adversely affected through other penalties, reputational harm, loss of access to certain markets, or otherwise. While we are working to implement additional controls designed to prevent similar activity from occurring in the future, these controls may not be fully effective.

Changes in our platform, or changes in export, sanctions, and import laws, may delay the introduction and sale of subscriptions to our platform in international markets; prevent our customers with international operations from using our platform; or, in some cases, prevent the access or use of our platform to and from certain countries, governments, persons, or entities altogether. Further, any change in export or import regulations, economic sanctions or related laws, shift in the enforcement or scope of existing regulations or change in the countries, governments, persons, or technologies targeted by such regulations could result in decreased use of our platform or in our decreased ability to export or sell our platform to existing or potential customers with international operations. Any decreased use of our platform or limitation on our ability to export or sell our platform would likely harm our business.

We may be subject to, or assist law enforcement with enforcement of, a variety of U.S. and international laws that could result in claims, increase the cost of operations or otherwise harm our business due to changes in the laws, changes in the interpretations of the laws, greater enforcement of the laws, or investigations into compliance with the laws.

We may be subject to, or assist law enforcement with enforcement of, various laws, including those covering copyright, indecent content, child protection, consumer protection, telecommunications services, taxation, and similar matters. It may be difficult, expensive and disruptive for us to address law enforcement requests, subpoenas and other legal process, and laws in various jurisdictions may conflict and hamper our ability to satisfy or comply with such requests, subpoenas and other legal process. There have been instances where improper or illegal content has been shared on our platform without our knowledge. As a service provider and as a matter of policy, we do not monitor user meetings. However, to ensure user safety and prevent conduct that is illegal, violent or harmful to others, we enforce our terms of service through use of a mix of tools that suggest when such activity may be occurring on our platform. We also recently created an in-product security feature that allows the host or co-host of a meeting to easily select a meeting participant that may be engaging in illegal or harmful behavior and send a report about that behavior to our trust and safety team for evaluation. Our trust and safety team may take further action as appropriate, including suspension or termination of the participant's account or referral to law enforcement. While to date we have not been subject to material legal or administrative actions as a result of improper or illegal content, the laws in this area are currently in a state of flux and vary widely between jurisdictions. Accordingly, it may be possible that in the future we and our competitors may be subject to legal actions along with the users who shared such content. In addition, regardless of any legal liability we may face, our reputation could be harmed should there be an incident generating extensive negative publicity about the content shared on our platform. Such publicity would harm our business.

We are also subject to consumer protection laws that may affect our sales and marketing efforts, including laws related to subscriptions, billing, and auto-renewal. These laws, as well as any changes in these laws, could adversely affect our self-serve model and make it more difficult for us to retain and upgrade customers and attract new customers and hosts. Additionally, we have in the past, are currently, and may from time to time in the future become the subject of inquiries and other actions by regulatory authorities as a result of our business practices, including our subscription, billing, and auto-renewal policies. Consumer protection laws may be interpreted or applied by regulatory authorities in a manner that could require us to make changes to our operations or incur fines, penalties, or settlement expenses, which may result in harm to our business.

Our platform depends on the ability of our customers, hosts, and users to access the internet, and our platform has been blocked or restricted in some countries for various reasons. If we fail to anticipate developments in the law, or fail for any reason to comply with relevant law, our platform could be further blocked or restricted, and we could be exposed to significant liability that could harm our business.

We are also subject to various U.S. and international anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act of 1977, amended, and the U.K. Bribery Act 2010, as well as other similar anti-bribery and anti-kickback laws and regulations. These laws and regulations generally prohibit companies and their employees and intermediaries from authorizing, offering, or providing improper payments or benefits to government officials and other recipients for improper purposes. Although we take precautions to prevent violations of these laws, our exposure for violating these laws increases as we continue to expand our international presence, and any failure to comply with such laws could harm our business.

Zoom Phone is subject to U.S. federal and international regulation, and other products we may introduce in the future may also be subject to U.S. federal, state, or international laws, rules, and regulations. Any failure to comply with such laws, rules, and regulations could harm our business and expose us to liability.

Federal Regulation

Zoom Phone is provided through our wholly owned subsidiary, Zoom Voice Communications, Inc., which is regulated by the FCC as an interconnected voice over internet protocol (“VoIP”) service provider. As a result, Zoom Phone is subject to existing or potential FCC regulations, including, but not limited to, regulations relating to privacy, disability access, porting of numbers, federal Universal Service Fund (“USF”), contributions and other regulatory assessments, emergency calling/Enhanced 911 (“E-911”), access charges for long distance services, and law enforcement access. Congress or the FCC may expand the scope of Zoom Phone’s regulatory obligations at any time. In addition, FCC classification of Zoom Phone as a common carrier or telecommunications service could result in additional federal and state regulatory obligations. If we do not comply with any current or future state regulations that apply to our business, we could be subject to substantial fines and penalties, we may have to restructure our product offerings, exit certain markets, or raise the price of our products, any of which could ultimately harm our business and results of operations. Any enforcement action by the FCC, which may be a public process, would hurt our reputation in the industry, possibly impair our ability to sell Zoom Phone to our customers and harm our business.

Changes in FCC regulation of the internet and internet-based services also could impose new regulatory obligations on our other services. On October 27, 2020, the FCC adopted an order concluding that three issues remanded by the U.S. Court of Appeals following the appeal of its 2018 decision to eliminate its network neutrality rules did not provide a basis to alter its conclusions in that order. Petitions for reconsideration of this decision are pending. Democratic control of the Executive Branch, Congress, and the FCC following the 2020 elections increases the likelihood of legislative or FCC action to reverse the 2018 decision or adopt new network neutrality rules. Such action could result in extension of common carrier regulation to internet-based communications services like the ones we offer. The imposition of common carrier regulation would increase our costs, and we could be required to modify our service offerings to comply with regulatory requirements. The failure to comply with such regulation could result in substantial fines and penalties and other sanctions.

There have been various Congressional and executive efforts to eliminate or modify Section 230 of the Communications Act of 1934, enacted as part of the Communications Decency Act of 1996. President Biden and many Members of Congress from both parties support reform or repeal of Section 230, so the possibility of Congressional action remains. In addition, the FCC is considering a petition, filed by the Trump Administration, to adopt rules interpreting Section 230, which limits the liability of internet platforms for third-party content that is transmitted via those platforms and for good-faith moderation of offensive content. No date has been set for a vote on that proposal and the FCC has not released any document describing the rules that would be proposed. The Democratic members of the FCC have indicated that they are opposed to the petition and now control the agenda of the FCC. If Congress revises or repeals Section 230 or the FCC adopts rules, we may no longer be afforded the same level of protection offered by Section 230. This would increase the risks faced by internet-based businesses, like Zoom, that rely on third-party content. There is no schedule for action by the FCC on the petition.

State Regulation

State telecommunications regulation of Zoom Phone is generally preempted by the FCC. However, states are allowed to assess state USF contributions, E-911 fees, and other surcharges. A number of states require us to contribute to state USF and pay E-911 and other assessments and surcharges, while others are actively considering extending their programs to include the products we offer. We generally pass USF, E-911 fees, and other surcharges through to our customers where we are permitted to do so, which may result in our products becoming more expensive. We expect that state public utility commissions will continue their attempts to apply state telecommunications regulations to services like Zoom Phone. If we do not comply with any current or future state regulations that apply to our business, we could be subject to substantial fines and penalties, we may have to restructure our product offerings, exit certain markets, or raise the price of our products, any of which could harm our business.

International Regulation

As we expand internationally, we may be subject to telecommunications, consumer protection, privacy, data protection, and other laws and regulations in the foreign countries where we offer our products. If we do not comply with any current or future international regulations that apply to our business, we could be subject to substantial fines and penalties, we may have to restructure our product offerings, exit certain markets, or raise the price of our products, any of which could harm our business.

Risks Related to Our Intellectual Property

We are currently, and may be in the future, party to intellectual property rights claims and other litigation matters, which, if resolved adversely, could harm our business.

We protect our intellectual property through patents, copyrights, trademarks, domain names, and trade secrets and, from time to time, are subject to litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. Some companies, including some of our competitors, own large numbers of patents, copyrights, and trademarks, which they may use to assert claims against us. As we face increasing competition and gain an increasingly high profile, the possibility of intellectual property rights claims, commercial claims, and other assertions against us grows. We have in the past been, are currently, and may from time to time in the future become, a party to litigation and disputes related to our intellectual property, our business practices, and our platform. While we intend to defend these lawsuits vigorously and believe that we have valid defenses to these claims, litigation can be costly and time consuming, divert the attention of our management and key personnel from our business operations and dissuade potential customers from subscribing to our services, which would harm our business. Furthermore, with respect to these lawsuits, there can be no assurances that favorable outcomes will be obtained. We may need to settle litigation and disputes on terms that are unfavorable to us, or we may be subject to an unfavorable judgment that may not be reversible upon appeal. The terms of any settlement or judgment may require us to cease some or all of our operations or pay substantial amounts to the other party. In addition, our agreements with certain larger customers include certain provisions for indemnifying them against liabilities if our services infringe a third party's intellectual property rights, which could require us to make payments to our customers. During the course of any litigation or dispute, we may make announcements regarding the results of hearings and motions and other interim developments. If securities analysts and investors regard these announcements as negative, the market price of our Class A common stock may decline. With respect to any intellectual property rights claim, we may have to seek a license to continue practices found to be in violation of third-party rights, which may not be available on reasonable terms and may significantly increase our operating expenses. A license to continue such practices may not be available to us at all, and we may be required to develop alternative non-infringing technology or practices or discontinue the practices. The development of alternative, non-infringing technology or practices could require significant effort and expense. Our business could be harmed as a result.

Our failure to protect our intellectual property rights and proprietary information could diminish our brand and other intangible assets.

We primarily rely and expect to continue to rely on a combination of patent, patent licenses, trade secret and domain name protection, trademark and copyright laws, as well as confidentiality and license agreements with our employees, consultants, and third parties, to protect our intellectual property and proprietary rights. We make business decisions about when to seek patent protection for a particular technology and when to rely upon copyright or trade secret protection, and the approach we select may ultimately prove to be inadequate. Even in cases where we seek patent protection, there is no assurance that the resulting patents will effectively protect every significant feature of our products. In addition, we believe that the protection of our trademark rights is an important factor in product recognition, protecting our brand and maintaining goodwill. If we do not adequately protect our rights in our trademarks from infringement and unauthorized use, any goodwill that we have developed in those trademarks could be lost or impaired, which could harm our brand and our business. Third parties may knowingly or unknowingly infringe our proprietary rights; third parties may challenge our proprietary right; pending and future patent, trademark, and copyright applications may not be approved; and we may not be able to prevent infringement without incurring substantial expense. We have also devoted substantial resources to the development of our proprietary technologies and related processes. In order to protect our proprietary technologies and processes, we rely in part on trade secret laws and confidentiality agreements with our employees, consultants, and third parties. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, the laws of certain foreign countries do not provide the same level of protection of corporate proprietary information and assets such as intellectual property, trademarks, trade secrets, know-how, and records, as the laws of the United States. For instance, the legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection. As a result, we may encounter significant problems in protecting and defending our intellectual property or proprietary rights abroad. Additionally, we may also be exposed to material risks of theft or unauthorized reverse engineering of our proprietary information and other intellectual property, including technical data, manufacturing processes, data sets, or other sensitive information. Our efforts to enforce our intellectual property rights in such foreign countries may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop, which could have a material adverse effect on our business, financial condition, and results of operations. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights. If the protection of our proprietary rights is inadequate to prevent use or appropriation by third parties, the value of our platform, brand, and other intangible assets may be diminished, and competitors may be able to more effectively replicate our platform and its features. Any of these events would harm our business.

Our use of third-party open source software could negatively affect our ability to offer and sell subscriptions to our platform and subject us to possible litigation.

We have incorporated, and may in the future incorporate, third-party open source software in our technologies. Open source software is generally licensed by its authors or other third parties under open source licenses. From time to time, companies that use third-party open source software have faced claims challenging the use of such open source software and requesting compliance with the open source software license terms. Accordingly, we may be subject to suits by parties claiming ownership of what we believe to be open source software or claiming non-compliance with the applicable open source licensing terms. Some open source software licenses require end-users who use, distribute or make available across a network software and services that include open source software to offer aspects of the technology that incorporates the open source software for no cost. We may also be required to make publicly available source code (which in some circumstances could include valuable proprietary code) for modifications or derivative works we create based upon incorporating or using the open source software and/or to license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of our licensed software. While we use tools designed to help us monitor and comply with the licenses of third-party open source software and protect our valuable proprietary source code, we may inadvertently use third-party open source software in a manner that exposes us to claims of non-compliance with the terms of their licenses, including claims of intellectual property rights infringement or for breach of contract. Furthermore, there exists today an increasing number of types of open source software licenses, almost none of which have been tested in courts of law to provide guidance of their proper legal interpretations. If we were to receive a claim of non-compliance with the terms of any of these open source licenses, we may be required to publicly release certain portions of our proprietary source code. We could also be required to expend substantial time and resources to re-engineer some of our software. Any of the foregoing could disrupt and harm our business.

In addition, the use of third-party open source software typically exposes us to greater risks than the use of third-party commercial software because open source licensors generally do not provide warranties or controls on the functionality or origin of the software. Use of open source software may also present additional security risks because the public availability of such software may make it easier for hackers and other third parties to determine how to compromise our platform. Any of the foregoing could harm our business and could help our competitors develop products and services that are similar to or better than ours.

Risks Related to Ownership of Our Class A Common Stock

The trading price of our Class A common stock may be volatile, and you could lose all or part of your investment.

The trading price of our Class A common stock has been and will likely continue to be volatile and could be subject to fluctuations in response to various factors, some of which are beyond our control. For example, in connection with the COVID-19 pandemic, we have experienced an increase in the usage of our unified communications platform, and as a result, the trading price of our Class A common stock has significantly increased, while at the same time, the broader market has experienced significant declines and volatility. There are no assurances that the trading price of our Class A common stock will continue at this level for any period of time. Moreover, the trading price of our Class A common stock could experience a significant decrease once the scope and impact of the COVID-19 pandemic is better understood. These fluctuations could cause you to lose all or part of your investment in our Class A common stock. Factors that could cause fluctuations in the trading price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the trading prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our Class A common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- announcements by us or our competitors of new products, features, or services;
- the public's reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;

- actual or anticipated changes in our results of operations or fluctuations in our results of operations;
- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- litigation involving us, our industry, or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses, products, services, or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

In addition, in the past, following periods of volatility in the overall market and in the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. For example, in April and June 2020, we and certain of our officers and directors were sued in putative class action lawsuits and purported shareholder derivative lawsuits alleging violations of the federal securities laws for allegedly making materially false and misleading statements about our data privacy and security measures. We may be the target of additional litigation of this type in the future. Securities litigation against us could result in substantial costs and divert our management's time and attention from other business concerns, which could harm our business. We may be the target of additional litigation of this type in the future as well. Securities litigation against us could result in substantial costs and a diversion of our management's attention and resources.

The dual class structure of our common stock as contained in our amended and restated certificate of incorporation has the effect of concentrating voting control with those stockholders who held our stock prior to our IPO, including our executive officers, employees, and directors and their affiliates, limiting your ability to influence corporate matters.

Our Class B common stock has 10 votes per share and our Class A common stock has one vote per share. As of March 9, 2021, the holders of our outstanding Class B common stock held 71.3% of the voting power of our outstanding capital stock, with our directors, executive officers and 5% stockholders and their respective affiliates holding 61.6% of such voting power in the aggregate. As of March 9, 2021, our founder, President and Chief Executive Officer, Eric S. Yuan, together with his affiliates, held approximately 8.4% of our outstanding capital stock but controlled approximately 30.1% of the voting power of our outstanding capital stock. Therefore, these holders have significant influence over our management and affairs and over all matters requiring stockholder approval, including election of directors and significant corporate transactions, such as a merger or other sale of Zoom or our assets, for the foreseeable future. Each share of Class B common stock will be automatically converted into one share of Class A common stock upon the earliest of (i) the date that is six months following the death or incapacity of Mr. Yuan, (ii) the date that is six months following the date that Mr. Yuan is no longer providing services to us or his employment is terminated for cause, (iii) the date specified by the holders of a majority of the then outstanding shares of Class B common stock, voting as a separate class, and (iv) the 15-year anniversary of the closing of our IPO.

In addition, the holders of Class B common stock collectively will continue to be able to control all matters submitted to our stockholders for approval even if their stock holdings represent less than a majority of the outstanding shares of our common stock. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be adversely affected.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, which will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, Mr. Yuan retains a significant portion of his holdings of Class B common stock for an extended period of time, he could, in the future, control a majority of the combined voting power of our Class A and Class B common stock. As a board member, Mr. Yuan owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, even a controlling stockholder, Mr. Yuan is entitled to vote his shares in his own interests, which may not always be in the interests of our stockholders generally.

In addition, in July 2017, FTSE Russell and Standard & Poor's announced that they would cease to allow most newly public companies utilizing dual- or multi-class capital structures to be included in their indices. Affected indices include the Russell 2000 and the S&P 500, S&P MidCap 400, and S&P SmallCap 600, which together make up the S&P Composite 1500. Under the announced policies, our dual-class capital structure would make us ineligible for inclusion in any of these indices,

and as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track these indices will not be investing in our stock. These policies are new, and it is as of yet unclear what effect, if any, they will have on the valuations of publicly traded companies excluded from the indices, but it is possible that they may depress these valuations or depress our trading volume compared to those of other similar companies that are included.

Future sales and issuances of our capital stock or rights to purchase capital stock could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to decline.

Future sales and issuances of our capital stock or rights to purchase our capital stock could result in substantial dilution to our existing stockholders. We may sell Class A common stock, convertible securities, and other equity securities in one or more transactions at prices and in a manner as we may determine from time to time. If we sell any such securities in subsequent transactions, investors may be materially diluted. New investors in such subsequent transactions could gain rights, preferences, and privileges senior to those of holders of our Class A common stock.

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

Sales of a substantial number of shares of our Class A common stock and Class B common stock (after automatically converting to Class A common stock) in the public market, or the perception that these sales might occur, could depress the market price of our Class A common stock.

In addition, certain of our stockholders have registration rights that would require us to register shares owned by them for public sale in the United States. We have also filed a registration statement to register shares reserved for future issuance under our equity compensation plans. As a result, subject to the satisfaction of applicable exercise periods and applicable volume and restrictions that apply to affiliates, the shares issued upon exercise of outstanding stock options or upon settlement of outstanding restricted stock unit (“RSU”) awards are available for immediate resale in the United States in the open market.

Sales of our shares could also impair our ability to raise capital through the sale of additional equity securities in the future and at a price we deem appropriate. These sales could also cause the trading price of our Class A common stock to fall and make it more difficult for you to sell shares of our Class A common stock.

Provisions in our corporate charter documents and under Delaware law may prevent or frustrate attempts by our stockholders to change our management or hinder efforts to acquire a controlling interest in us, and the market price of our Class A common stock may be lower as a result.

There are provisions in our certificate of incorporation and bylaws that may make it difficult for a third party to acquire, or attempt to acquire, control of Zoom, even if a change in control was considered favorable by our stockholders.

Our charter documents also contain other provisions that could have an anti-takeover effect, such as:

- establishing a classified board of directors so that not all members of our board of directors are elected at one time;
- permitting the board of directors to establish the number of directors and fill any vacancies and newly created directorships;
- providing that directors may only be removed for cause;
- prohibiting cumulative voting for directors;
- requiring super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorizing the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- eliminating the ability of stockholders to call special meetings of stockholders;
- prohibiting stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders; and
- our dual-class common stock structure as described above.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibit a person who owns 15% or more of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. Any provision in our certificate of incorporation or our bylaws or Delaware law that has the effect of delaying or deterring a change in control could

limit the opportunity for our stockholders to receive a premium for their shares of our Class A common stock and could also affect the price that some investors are willing to pay for our Class A common stock.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware and the federal district courts of the United States of America as the exclusive forums for certain disputes between us and our stockholders, which could limit our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on our behalf; (ii) 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; (iii) any action arising pursuant to any provision of the Delaware General Corporation Law, or the certificate of incorporation or the amended and restated bylaws; or (iv) any other action asserting a claim that is governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware), in all cases subject to the court having jurisdiction over indispensable parties named as defendants. This provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act. Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated certificate of incorporation provides that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to these provisions. These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers and other employees. If a court were to find either exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could harm our results of operations.

We do not intend to pay dividends for the foreseeable future.

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. As a result, stockholders must rely on sales of their Class A common stock after price appreciation as the only way to realize any future returns on their investment.

General Risk Factors

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

Market opportunity estimates and growth forecasts for the markets in which we compete, including those we have generated ourselves, are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. Not every organization covered by our market opportunity estimates will necessarily buy video communications platforms, and some or many of those organizations may choose to continue using legacy communication methods or point solutions offered by our competitors. It is impossible to build every product feature that every customer or host wants, and our competitors may develop and offer features that our platform does not provide. The variables that go into the calculation of our market opportunity are subject to change over time, and there is no guarantee that any particular number or percentage of the organizations covered by our market opportunity estimates will purchase our solutions at all or generate any particular level of revenue for us. Even if the markets in which we compete meet the size estimates and growth forecasts, our business could fail to grow for a variety of reasons outside of our control, including competition in our industry. If any of these risks materializes, it could harm our business and prospects.

Our business could be disrupted by catastrophic events.

Occurrence of any catastrophic event, including earthquake, fire, flood, tsunami or other weather event, power loss, telecommunications failure, software or hardware malfunctions, cyber-attack, war, terrorist attack, disease, or health epidemics, could result in lengthy interruptions in our service. In particular, our U.S. headquarters and some of the data centers we utilize are located in the San Francisco Bay Area, a region known for seismic activity, and our insurance coverage may not compensate us for losses that may occur in the event of an earthquake or other significant natural disaster. In addition, acts of terrorism could cause disruptions to the internet or the economy as a whole. Even with our disaster recovery arrangements, our service could be interrupted. Moreover, if our systems were to fail or be negatively impacted as a result of a natural disaster or other event, our ability to deliver products to our users would be impaired, or we could lose critical data. If we are unable to develop adequate plans to ensure that our business functions continue to operate during and after a disaster and to execute successfully on those plans in the event of a disaster or emergency, our business would be harmed.

We also face risks related to health epidemics, such as the COVID-19 pandemic, which has impacted virtually every country in the world. An outbreak of a contagious disease, and other adverse health developments could have an adverse effect on global economic conditions and on our business. The effects could include business and service disruptions, such as the temporary closure of our facilities, restrictions on our employees' ability to travel to support our facilities and services, and difficulties in hiring new employees. We have removed the 40-minute time limit from our free Basic accounts for customers in K-12 schools in certain countries. While we have seen increased usage of our service globally, a significant portion of such increase is attributable to free Basic accounts, which do not generate any revenue. We cannot make any assurances that we will experience an increase in paid hosts or that new or existing users will continue to utilize our services at the same levels after the COVID-19 pandemic has tapered. Furthermore, such increased usage by free Basic account users during this time has required and will continue to require us to expand our network capacity which will increase our operating costs.

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

Generally accepted accounting principles in the United States are subject to interpretation by the FASB, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported results of operations and may even affect the reporting of transactions completed before the announcement or effectiveness of a change. It is also difficult to predict the impact of future changes to accounting principles or our accounting policies, any of which could harm our business.

We may need additional capital, and we cannot be certain that additional financing will be available on favorable terms, or at all.

Historically, we have funded our operations and capital expenditures primarily through equity issuances and cash generated from our operations. Although we currently anticipate that our existing cash and cash equivalents and cash flow from operations will be sufficient to meet our cash needs for the foreseeable future, we may require additional financing. We evaluate financing opportunities from time to time, and our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance, and condition of the capital markets at the time we seek financing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity or equity-linked or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our Class A common stock, and our stockholders may experience dilution.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate consolidated financial statements or comply with applicable regulations could be impaired.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") and the rules and regulations of the applicable listing standards of The Nasdaq Stock Market. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs; make some activities more difficult, time-consuming, and costly; and place significant strain on our personnel, systems, and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have

expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. In addition, changes in accounting principles or interpretations could also challenge our internal controls and require that we establish new business processes, systems, and controls to accommodate such changes. We have limited experience with implementing the systems and controls that will be necessary to operate as a public company, as well as adopting changes in accounting principles or interpretations mandated by the relevant regulatory bodies. Additionally, if these new systems, controls, or standards and the associated process changes do not give rise to the benefits that we expect or do not operate as intended, it could adversely affect our financial reporting systems and processes, our ability to produce timely and accurate financial reports, or the effectiveness of internal control over financial reporting. Moreover, our business may be harmed if we experience problems with any new systems and controls that result in delays in their implementation or increased costs to correct any post-implementation issues that may arise.

Further, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our business or cause us to fail to meet our reporting obligations and may result in a restatement of our consolidated financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on The Nasdaq Stock Market. We are required to provide an annual management report on the effectiveness of our internal control over financial reporting.

Our independent registered public accounting firm is required to formally attest to the effectiveness of our internal control over financial reporting. Our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed, or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could harm our business and could cause a decline in the trading price of our Class A common stock.

Our Class A common stock market price and trading volume could decline if securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business.

The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. The analysts' estimates are based upon their own opinions and are often different from our estimates or expectations. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, the price of our securities would likely decline. If one or more securities analysts cease coverage of us or fail to publish reports on us regularly, demand for our securities could decrease, which might cause the price and trading volume of our Class A common stock to decline.

We incur costs and demands upon management as a result of complying with the laws and regulations affecting public companies in the United States, which may harm our business.

As a public company listed in the United States, we incur significant additional legal, accounting, and other expenses. In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure, including regulations implemented by the SEC and The Nasdaq Stock Market, may increase legal and financial compliance costs and make some activities more time consuming. These laws, regulations, and standards are subject to varying interpretations, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If, notwithstanding our efforts, we fail to comply with new laws, regulations, and standards, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Failure to comply with these rules might also make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we might be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events would also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors, or as members of senior management.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

Our corporate headquarters is located in San Jose, California, where we lease approximately 103,000 square feet of commercial space pursuant to operating leases that expire in the fiscal year ending January 31, 2030. In addition, we maintain additional offices in the United States and internationally in APAC and EMEA. We believe that our facilities are suitable to meet our current needs.

Item 3. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 8 - "Commitment and Contingencies" in the accompanying notes to the consolidated financial statements included in Part II, Item 8, "Consolidated Financial Statements and Supplementary Data" of this Annual Report on Form 10-K, under "Legal Proceedings," which is incorporated herein by reference.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our Class A common stock is listed on the Nasdaq Global Select Market under the symbol "ZM."

Holders of Record

As of January 31, 2021, we had 58 holders of record of our Class A common stock and 21 holders of record of our Class B common stock. Because many of our shares of Class A common stock are held in street name by brokers and other nominees on behalf of stockholders, we are unable to estimate the total number of beneficial owners of our Class A common stock represented by these holders of record.

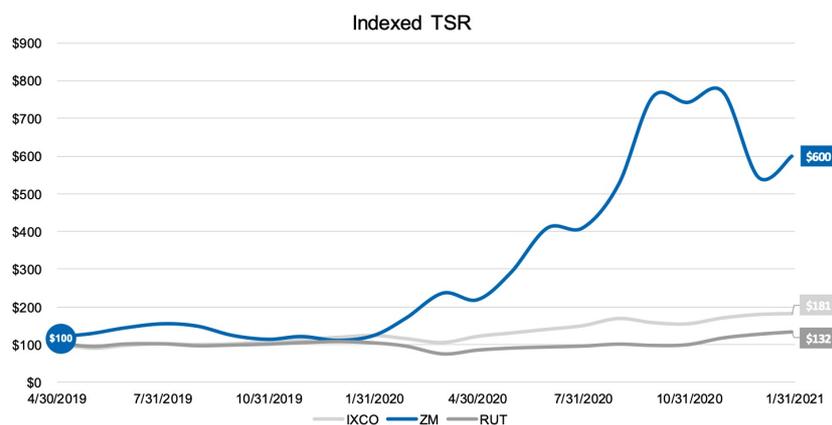
Dividend Policy

We have never declared or paid any cash dividends 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, results of operations, capital requirements, contractual restrictions, general business conditions, and other factors that our board of directors may deem relevant.

Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC, for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act.

The following graph compares (i) the cumulative total stockholder return on our Class A common stock from April 18, 2019 (the date our Class A common stock commenced trading on the Nasdaq Global Select Market) through January 31, 2021 with (ii) the cumulative total return of the Russell 2000 Index ("RUT") and the Nasdaq Computer Index ("IXCO") over the same period, assuming the investment of \$100 in our Class A common stock and in both of the other indices on April 18, 2019 and the reinvestment of dividends. The graph uses the closing market price on April 18, 2019 of \$62.00 per share as the initial value of our Class A common stock. As discussed above, we have never declared or paid a cash dividend on our Class A common stock and do not anticipate declaring or paying a cash dividend in the foreseeable future.



Unregistered Sales of Equity Securities

None.

Use of Proceeds

On April 23, 2019, we sold 13,041,869 shares of our Class A common stock in connection with our IPO, including 3,130,435 shares sold pursuant to the underwriters' full exercise of their right to purchase additional shares, at a public offering price of \$36.00 per share for an aggregate offering price of \$469.5 million. The selling stockholders sold 10,958,131 shares of our Class A common stock at a public offering price of \$36.00 per share for an aggregate offering price of \$394.5 million. The offer and sale of all of the shares in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-230444), which was declared effective by the SEC on April 17, 2019.

Immediately subsequent to the closing of our IPO, Salesforce Ventures LLC purchased 2,777,777 shares of our Class A common stock from us at \$36.00 per share in a concurrent private placement.

We have applied all of the \$469.5 million of net proceeds from the IPO for the purposes described in our final prospectus dated April 17, 2019 filed with the SEC pursuant to Rule 424(b) under the Securities Act.

Issuer Purchases of Equity Securities

None.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for each of the fiscal years ended January 31, 2021, 2020, and 2019, and the consolidated balance sheets data as of January 31, 2021 and 2020, are derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data for the fiscal years ended January 31, 2018 and 2017 and the consolidated balance sheet data as of January 31, 2019 and 2018 are derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our future results. The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K and are qualified in their entirety by the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

	Year Ended January 31,				
	2021	2020	2019	2018	2017
(in thousands, except share and per share data)					
Consolidated Statements of Operations Data:					
Revenue	\$ 2,651,368	\$ 622,658	\$ 330,517	\$ 151,478	\$ 60,817
Cost of revenue ⁽¹⁾	821,989	115,396	61,001	30,780	12,472
Gross profit	1,829,379	507,262	269,516	120,698	48,345
Operating expenses:					
Research and development ⁽¹⁾	164,080	67,079	33,014	15,733	9,218
Sales and marketing ⁽¹⁾	684,904	340,646	185,821	82,707	31,580
General and administrative ⁽¹⁾	320,547	86,841	44,514	27,091	7,547
Total operating expenses	1,169,531	494,566	263,349	125,531	48,345
Income (loss) from operations	659,848	12,696	6,167	(4,833)	0
Interest income and other, net	18,186	13,666	2,182	1,315	158
Income (loss) before provision for income taxes	678,034	26,362	8,349	(3,518)	158
Provision for income taxes	5,718	1,057	765	304	172
Net income (loss)	\$ 672,316	\$ 25,305	\$ 7,584	\$ (3,822)	\$ (14)
Distributed earnings attributable to participating securities	—	—	—	(4,405)	(14,366)
Undistributed earnings attributable to participating securities	(789)	(3,555)	(7,584)	—	—
Net income (loss) attributable to common stockholders	\$ 671,527	\$ 21,750	\$ 0	\$ (8,227)	\$ (14,380)
Net income (loss) per share attributable to common stockholders:					
Basic	\$ 2.37	\$ 0.09	\$ 0.00	\$ (0.11)	\$ (0.20)
Diluted	\$ 2.25	\$ 0.09	\$ 0.00	\$ (0.11)	\$ (0.20)
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:					
Basic	283,853,654	233,641,336	84,483,094	78,119,865	70,309,256
Diluted	298,127,669	254,298,014	116,005,681	78,119,865	70,309,256

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

	Year Ended January 31,				
	2021	2020	2019	2018	2017
(in thousands)					
Cost of revenue	\$ 34,960	\$ 7,860	\$ 1,119	\$ 204	\$ 87
Research and development	50,161	11,645	1,369	360	278
Sales and marketing	146,377	41,465	3,540	812	467
General and administrative	44,320	12,139	2,913	8,953	207
Total stock-based compensation expense	\$ 275,818	\$ 73,109	\$ 8,941	\$ 10,329	\$ 1,039

	As of January 31,			
	2021	2020	2019	2018
	(in thousands)			
Consolidated Balance Sheets Data:				
Cash and cash equivalents	\$ 2,240,303	\$ 283,134	\$ 63,624	\$ 36,146
Marketable securities	\$ 2,004,410	\$ 572,060	\$ 112,777	\$ 103,056
Working capital	\$ 3,532,899	\$ 761,692	\$ 124,378	\$ 114,633
Total assets	\$ 5,297,993	\$ 1,289,845	\$ 354,565	\$ 215,019
Deferred revenue, current and noncurrent	\$ 883,495	\$ 230,536	\$ 125,773	\$ 54,262
Convertible promissory notes, net ⁽¹⁾	\$ —	\$ —	\$ 14,858	\$ —
Convertible preferred stock	\$ —	\$ —	\$ 159,552	\$ 159,552
Retained earnings (accumulated deficit)	\$ 672,468	\$ 152	\$ (25,153)	\$ (32,737)
Total stockholders' equity (deficit)	\$ 3,860,767	\$ 833,943	\$ (7,439)	\$ (26,671)

⁽¹⁾ Included in other liabilities, noncurrent on our consolidated balance sheets.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the section titled "Risk Factors" and in other parts of this Annual Report on Form 10-K.

Overview

Our mission is to make video communications frictionless and secure.

We provide a video-first unified communications platform that delivers happiness and fundamentally changes how people interact. We connect people through frictionless and secure video, voice, chat, and content sharing and enable face-to-face video experiences for thousands of people in a single meeting across disparate devices and locations. Our cloud-native platform delivers reliable, high-quality video that is easy to use, manage, and deploy; provides an attractive return on investment; is scalable; and easily integrates with applications and physical spaces. We believe that rich and reliable communications lead to interactions that build greater empathy and trust. We strive to live up to the trust our customers place in us by delivering a communications solution that "just works" while prioritizing their privacy and security. Our goal is to make Zoom Meetings better than in-person meetings. Our 21 co-located data centers located worldwide and the public cloud enable us to provide both high-quality and high-definition, real-time video to our customers even in low-bandwidth environments.

We generate revenue from the sale of subscriptions to our unified communications platform. Subscription revenue is driven primarily by the number of paid hosts as well as purchases of additional products, including Zoom Rooms, Zoom Video Webinars, Zoom Phone, and Hardware-as-a-Service ("HaaS") for rooms and phones. A host is any user of our unified communications platform who initiates a Zoom Meeting and invites one or more participants to join that meeting. We refer to hosts who subscribe to a paid Zoom Meeting plan as "paid hosts." We define a customer as a separate and distinct buying entity, which can be a single paid host or an organization of any size (including a distinct unit of an organization) that has multiple paid hosts. Our Basic offering is free and gives hosts access to Zoom Meetings with core features but with the limitation that meetings with more than two endpoints time-out at 40 minutes. Our paid offerings include our Pro, Business, Enterprise, Education, and Healthcare plans, which provide incremental features and functionality, such as different participant limits, administrative controls, and reporting.

For Zoom Phone, plans include Zoom Phone Pro, which provides extension-to-extension calling or can be used with the Bring Your Own Carrier model wherein the customer connects Zoom Phone to an existing carrier. We also offer Regional Unlimited and Regional Metered calling plans in three specific markets (United States/Canada, United Kingdom/Ireland, and Australia/New Zealand). In addition, we introduced the Global Select plan in August 2020, which allows customers to select from local numbers and domestic calling in over 40 countries and territories where Zoom has local PSTN coverage. In addition, the Zoom United plan launched in December 2020 provides a single license for customers to purchase Zoom Phone, Meetings and chat capabilities as a bundled offering.

Our revenue was \$2,651.4 million, \$622.7 million, and \$330.5 million for the fiscal years ended January 31, 2021, 2020, and 2019, respectively, representing period-over-period growth rate of 326% and 88% for fiscal year 2021 and fiscal year 2020,

respectively. We had net income of \$672.3 million, \$25.3 million, and \$7.6 million for the fiscal years ended January 31, 2021, 2020, and 2019, respectively. Net cash provided by operating activities was \$1,471.2 million, \$151.9 million, and \$51.3 million for the fiscal years ended January 31, 2021, 2020, and 2019, respectively.

Recent Developments

COVID-19

In December 2019, an outbreak of the COVID-19 disease was first identified and began to spread across the globe. In March 2020, the World Health Organization declared COVID-19 a pandemic, impacting many countries around the world. Governments have instituted lockdown or other similar measures to slow infection rates. Many organizations have resorted to mandating employees to work from home, which has resulted in these organizations seeking out video communication solutions like ours to keep employees as productive as possible, even while working from home. Schools, colleges, and universities globally have also closed as a result of this pandemic. Many of these institutions are utilizing our platform to provide remote instruction to their students. To help teachers and students navigate this unprecedented situation, we have temporarily removed the 40-minute time limit for meetings with more than two endpoints from our free Basic accounts for more than 125,000 K-12 domains worldwide.

While we have experienced a significant increase in paid hosts and revenue due to the pandemic, the aforementioned factors have also driven increased usage of our services and have required us to expand our network, data storage, and processing capacity, both in our own co-located data centers as well as through third-party cloud hosting, which has resulted, and is continuing to result, in an increase in our operating costs. Furthermore, a significant portion of the increase in usage of our platform is attributable to free Basic accounts and our removal of the time limit for school domains, which do not generate any revenue, but still require us to incur these additional operating costs to expand our capacity. Therefore, the recent increase in usage of our platform has adversely impacted, and may continue to adversely impact, our gross margin.

In addition, there is no assurance that we will experience an increase in paid hosts or that new or existing users will continue to utilize our service after the COVID-19 pandemic has tapered. Moreover, the tapering of the COVID-19 pandemic, particularly as vaccinations become widely available, may result in a decline in paid hosts and users once individuals are no longer working or attending school from home.

Key Factors Affecting Our Performance

Acquiring New Customers

We are focused on continuing to grow the number of customers that use our platform. Our operating results and growth prospects will depend, in part, on our ability to attract new customers. While we believe there is a significant market opportunity that our platform addresses, it is difficult to predict customer adoption rates or the future growth rate and size of the market for our platform. We will need to continue to invest in sales and marketing in order to address this opportunity by hiring, developing, and retaining talented sales personnel who are able to achieve desired productivity levels in a reasonable period of time.

Expansion of Zoom Across Existing Customers

We believe that there is a large opportunity for growth with many of our existing customers. Many customers have increased the size of their subscriptions as they have expanded their use of our platform across their operations. Some of our larger enterprise customers start with a deployment of Zoom Meetings with one team, location, or geography, before rolling out our platform throughout their organization. Several of our largest customers have deployed our platform globally to their entire workforce following smaller initial deployments. This expansion in the use of our platform also provides us with opportunities to market and sell additional products to our customers, such as Zoom Phone, Zoom HaaS, Zoom for Home, Zoom Rooms at each office location, and Zoom Video Webinars. In order for us to address this opportunity to expand the use of our products with our existing customers, we will need to maintain the reliability of our platform and produce new features and functionality that are responsive to our customers' requirements for enterprise-grade solutions.

We quantify our expansion across existing customers through our net dollar expansion rate. Our net dollar expansion rate includes the increase in user adoption within our customers, as our subscription revenue is primarily driven by the number of paid hosts within a customer and the purchase of additional products, and compares our subscription revenue from the same set of customers across comparable periods. We calculate net dollar expansion rate as of a period end by starting with the annual recurring revenue ("ARR") from all customers with more than 10 employees as of 12 months prior ("Prior Period ARR"). We define ARR as the annualized revenue run rate of subscription agreements from all customers at a point in time. We calculate ARR by taking the monthly recurring revenue ("MRR") and multiplying it by 12. MRR is defined as the recurring revenue run-rate of subscription agreements from all customers for the last month of the period, including revenue from monthly subscribers

who have not provided any indication that they intend to cancel their subscriptions. We then calculate the ARR from these customers as of the current period end (“Current Period ARR”), which includes any upsells, contraction, and attrition. We divide the Current Period ARR by the Prior Period ARR to arrive at the net dollar expansion rate. For the trailing 12-months calculation, we take an average of the net dollar expansion rate over the trailing 12 months. Our net dollar expansion rate may fluctuate as a result of a number of factors, including the level of penetration within our customer base, expansion of products and features, and our ability to retain our customers. Our trailing 12-month net dollar expansion rate in customers with more than 10 employees was greater than 130% as of January 31, 2021, 2020, and 2019.

Innovation and Expansion of Our Platform

We continue to invest resources to enhance the capabilities of our platform. For example, we have recently introduced a number of product enhancements, including new features for Zoom Phone, Zoom Meetings, and Zoom Video Webinars. We addressed new work-from-home realities with the introduction of Zoom for Home, a solution designed for the home office that combines Zoom software enhancements with compatible hardware. We also expanded our geographic footprint with Zoom Phone availability in 26 new countries and territories during fiscal year 2021, bringing the total to 44. Third-party developers are also a key component of our strategy for platform innovation to make it easier for customers and developers to extend our product portfolio with new functionalities. We believe that as more developers and other third parties use our platform to integrate major third-party applications, we will become the ubiquitous platform for communications. We will need to expend additional resources to continue introducing new products, features, and functionality, and supporting the efforts of third parties to enhance the value of our platform with their own applications.

An End-to-end encryption (“E2EE”) option is now available to free and paid Zoom customers globally who host meetings with up to 200 participants. Zoom’s E2EE uses the same AES-256-GCM encryption that secures Zoom meetings by default, but with Zoom’s new E2EE, the meeting host generates encryption keys and uses public key cryptography to distribute these keys to the other meeting participants.

We recently announced two additions to the Zoom platform: OnZoom and Zoom Apps. OnZoom is an online event platform for Zoom users to create and host free, paid, and fundraising events. OnZoom is currently offered as a public beta for U.S. users to attend online events. Zoom Apps are a new app type coming soon to the Zoom App Marketplace. These in-product integrations will be accessible directly from Zoom Meetings and the Zoom Desktop client and are designed to facilitate collaboration and engagement during meetings.

International Expansion

Our platform addresses the communications needs of users worldwide, and we see international expansion as a major opportunity. Our revenue from the rest of world (APAC and EMEA) represented 31%, 19%, and 18% of our total revenue for the fiscal years ended January 31, 2021, 2020, and 2019, respectively. We plan to add local sales support in further select international markets over time. We use strategic partners and resellers to sell in certain international markets where we have limited or no direct sales presence. While we believe global demand for our platform will continue to increase as international market awareness of Zoom grows, our ability to conduct our operations internationally will require considerable management attention and resources, and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute systems, and commercial markets.

Key Business Metrics

We review the following key business metrics to measure our performance, identify trends, formulate financial projections, and make strategic decisions.

Customers with More Than 10 Employees

Increasing awareness of our platform and its broad range of capabilities has enabled us to substantially expand our customer base, which includes organizations of all sizes across industries. We define a customer as a separate and distinct buying entity, which can be a single paid host or an organization of any size (including a distinct unit of an organization) that has multiple paid hosts. To better distinguish business customers from our broader customer base, we review the number of customers with more than 10 employees. As of January 31, 2021, 2020, and 2019, we had approximately 467,100, 81,900, and 50,800 customers, respectively, with more than 10 employees. When disclosing the number of customers, we round down to the nearest hundred.

Since the start of the COVID-19 pandemic early this fiscal year, our customer cohort with 10 or fewer employees expanded as business owners and individual users adopted Zoom for many personal, professional, and social events. As a result, we have experienced a shift in the makeup of customer cohorts, with 36% of revenue attributable to customers with 10 or fewer employees during the fiscal year ended January 31, 2021, compared to 18% for the prior fiscal year.

Customers Contributing More Than \$100,000 of Trailing 12 Months Revenue

We focus on growing the number of customers that contribute more than \$100,000 of trailing 12 months revenue as a measure of our ability to scale with our customers and attract larger organizations to Zoom. Revenue from these customers represented 20%, 33%, and 30% of total revenue for the fiscal years ended January 31, 2021, 2020, and 2019, respectively. As of January 31, 2021, 2020, and 2019, we had 1,644, 641, and 344 customers, respectively, that contributed more than \$100,000 of trailing 12 months revenue, demonstrating our rapid penetration of larger organizations, including enterprises. These customers are a subset of the customers with more than 10 employees.

Non-GAAP Financial Measure

In addition to our results determined in accordance with GAAP, we believe that free cash flow ("FCF"), a non-GAAP financial measure, is useful in evaluating our liquidity.

Free Cash Flow

We define FCF as GAAP net cash provided by operating activities less purchases of property and equipment. We believe that FCF is a useful indicator of liquidity that provides information to management and investors about the amount of cash generated from our operations that, after investments in property and equipment, can be used for future growth. FCF is presented for supplemental informational purposes only, has limitations as an analytical tool, and should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. It is important to note that other companies, including companies in our industry, may not use this metric, may calculate this metric differently, or may use other financial measures to evaluate their liquidity, all of which could reduce the usefulness of this non-GAAP metric as a comparative measure.

The following table presents a summary of our cash flows for the fiscal years presented and a reconciliation of FCF to net cash provided by operating activities, the most directly comparable financial measure calculated in accordance with GAAP:

	Year Ended January 31,		
	2021	2020	2019
	(in thousands)		
Net cash provided by operating activities	\$ 1,471,177	\$ 151,892	\$ 51,332
Less: purchases of property and equipment	(79,972)	(38,084)	(28,432)
Free cash flow (non-GAAP)	\$ 1,391,205	\$ 113,808	\$ 22,900
Net cash used in investing activities	\$ (1,562,420)	\$ (499,468)	\$ (39,719)
Net cash provided by financing activities	\$ 2,050,277	\$ 615,690	\$ 17,534

Components of Results of Operations**Revenue**

We derive our revenue from subscription agreements with customers for access to our unified communications platform. Our customers generally do not have the ability to take possession of our software. We also provide services, which include professional services, consulting services, and online event hosting, which are generally considered distinct from the access to our unified communications platform.

Cost of Revenue

Cost of revenue primarily consists of costs related to hosting our unified communications platform and providing general operating support services to our customers. These costs are related to our co-located data centers, third-party cloud hosting, integrated third-party PSTN services, personnel-related expenses, amortization of capitalized software development and acquired intangible assets, royalty payments, and allocated overhead. We expect our cost of revenue to increase in absolute dollars during the upcoming fiscal year, as we expand our data center capacity due to increased usage stemming from the COVID-19 pandemic. However, the cost of revenue as a percentage of revenue may decrease over time as we scale our data centers to accommodate usage from our increased customer base and as the ratio of free to paid users varies.

Operating Expenses

Research and Development

Research and development expenses primarily consist of personnel-related expenses directly associated with our research and development organization, depreciation of equipment used in research and development, and allocated overhead. Research and development costs are expensed as incurred. We plan to increase our investment in research and development for the foreseeable future, primarily by increasing research and development headcount, as we focus on further developing our platform, enhancing its use cases, and strengthening security and privacy. As a result, we expect our research and development expenses to increase both in absolute dollars and as a percentage of total revenue, during the upcoming fiscal year.

Sales and Marketing

Sales and marketing expenses primarily consist of personnel-related expenses directly associated with our sales and marketing organization. Other sales and marketing expenses include advertising and promotional events to promote our brand, such as awareness programs, digital programs, public relations, tradeshows, and our user conference, Zoomtopia, and allocated overhead. Sales and marketing expenses also include amortization of deferred contract acquisition costs and credit card processing fees related to sales. We plan to increase our investment in sales and marketing over the foreseeable future, primarily by increasing the headcount of our direct sales force and marketing investments in demand generation. As a result, we expect our sales and marketing expenses to increase both in absolute dollars and as a percentage of total revenue, during the upcoming fiscal year.

General and Administrative

General and administrative expenses primarily consist of personnel-related expenses associated with our finance, legal, and human resources organizations; professional fees for external legal, accounting, and other consulting services; expected credit losses; insurance; indirect taxes; and allocated overhead. We expect to increase the size of our general and administrative function to support the growth and complexity of our business. As a result, we expect our general and administrative expenses to increase in absolute dollars, but to remain relatively constant as a percentage of total revenue, during the upcoming fiscal year.

Interest Income and Other, Net

Interest income and other, net consists primarily of interest income and net accretion earned on our marketable securities, effect of changes in foreign currency exchange rates, and remeasurement gains or losses on our equity investment.

Provision for Income Taxes

Provision for income taxes consists primarily of income taxes related to federal, state, and foreign jurisdictions where we conduct business.

Results of Operations

The following tables set forth selected consolidated statements of operations data and such data as a percentage of total revenue for each of the fiscal years indicated:

	Year Ended January 31,		
	2021	2020	2019
	(in thousands)		
Revenue	\$ 2,651,368	\$ 622,658	\$ 330,517
Cost of revenue ⁽¹⁾	821,989	115,396	61,001
Gross profit	1,829,379	507,262	269,516
Operating expenses:			
Research and development ⁽¹⁾	164,080	67,079	33,014
Sales and marketing ⁽¹⁾	684,904	340,646	185,821
General and administrative ⁽¹⁾	320,547	86,841	44,514
Total operating expenses	1,169,531	494,566	263,349
Income from operations	659,848	12,696	6,167
Interest income and other, net	18,186	13,666	2,182
Income before provision for income taxes	678,034	26,362	8,349
Provision for income taxes	5,718	1,057	765
Net income	\$ 672,316	\$ 25,305	\$ 7,584

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

Cost of revenue	\$ 34,960	\$ 7,860	\$ 1,119
Research and development	50,161	11,645	1,369
Sales and marketing	146,377	41,465	3,540
General and administrative	44,320	12,139	2,913
Total stock-based compensation expense	\$ 275,818	\$ 73,109	\$ 8,941

	Year Ended January 31,		
	2021	2020	2019
	(as a percentage of revenue)		
Revenue	100 %	100 %	100 %
Cost of revenue	31	19	18
Gross profit	69	81	82
Operating expenses:			
Research and development	6	11	10
Sales and marketing	26	55	56
General and administrative	12	13	14
Total operating expenses	44	79	80
Income from operations	25	2	2
Interest income and other, net	1	2	1
Income before provision for income taxes	26	4	3
Provision for income taxes	1	0	1
Net income	25 %	4 %	2 %

Comparison of Fiscal Years Ended January 31, 2021 and 2020

Revenue

	Year Ended January 31,			
	2021	2020	\$ Change	% Change
	(in thousands, except percentages)			
Revenue	\$ 2,651,368	\$ 622,658	\$ 2,028,710	326 %

Revenue for the fiscal year ended January 31, 2021 increased by \$2,028.7 million, or 326%, compared to the fiscal year ended January 31, 2020. Due to the COVID-19 pandemic, there was an increase in usage of our services, as many organizations around the world started utilizing our platform to continue their operations remotely. As a result, the increase in revenue was primarily due to subscription services provided to new customers, which accounted for approximately 73% of the increase, and to subscription services provided to existing customers, which accounted for approximately 27% of the increase.

Cost of Revenue

	Year Ended January 31,			
	2021	2020	\$ Change	% Change
	(in thousands, except percentages)			
Cost of revenue	\$ 821,989	\$ 115,396	\$ 706,593	612 %
Gross profit	1,829,379	507,262	1,322,117	261 %
Gross margin	69 %	81 %		

Cost of revenue for the fiscal year ended January 31, 2021 increased by \$706.6 million, or 612%, compared to the fiscal year ended January 31, 2020. In response to the COVID-19 pandemic, we have temporarily removed the 40-minute time limit for meetings with more than two endpoints from our free Basic accounts for more than 125,000 K-12 school domains worldwide. We also experienced a significant increase in usage from paid users as more companies started utilizing our platform to allow their employees to work remotely. This increase in usage resulted in an increase of \$619.2 million in costs related to third-party cloud hosting, integrated third-party PSTN services, and our co-located data centers to support the increase in customers and expanded use of our unified communications platform by existing customers. The remaining increase was primarily due to an increase of \$59.3 million in personnel-related expenses mainly driven by additional headcount, which includes a \$27.1 million increase in stock-based compensation expense; an increase of \$18.4 million in professional services mainly for customer support, and an increase of \$5.8 million related to subscription to software-based services.

Gross margin decreased to 69% for the fiscal year ended January 31, 2021 from 81% for the fiscal year ended January 31, 2020. The decrease in gross margin was due to higher incremental cost from leveraging third-party cloud hosting providers to meet the significant increase in usage as well as the higher percentage of usage from free users.

Operating Expenses

Research and Development

	Year Ended January 31,			
	2021	2020	\$ Change	% Change
	(in thousands, except percentages)			
Research and development	\$ 164,080	\$ 67,079	\$ 97,001	145 %

Research and development expense for the fiscal year ended January 31, 2021 increased by \$97.0 million, or 145%, compared to the fiscal year ended January 31, 2020. The increase was primarily due to higher personnel-related expenses of \$79.7 million mainly driven by additional headcount, which includes a \$38.5 million increase in stock-based compensation expense. The remainder of the increase was primarily attributable to an increase of \$12.1 million in professional services mainly related to security, and an increase of \$3.4 million related to subscription to software-based services.

Sales and Marketing

	Year Ended January 31,			
	2021	2020	\$ Change	% Change
	(in thousands, except percentages)			
Sales and marketing	\$ 684,904	\$ 340,646	\$ 344,258	101 %

Sales and marketing expense for the fiscal year ended January 31, 2021 increased by \$344.3 million, or 101%, compared to the fiscal year ended January 31, 2020. The increase in sales and marketing expense was primarily due to higher personnel-related expenses of \$266.1 million, mainly driven by additional headcount in our sales force to support the increased demand, which includes an increase of \$104.9 million in stock-based compensation expense; and an increase of \$67.2 million in amortization of deferred contract acquisition costs driven by our increase in revenue. The remaining increase was primarily due to an increase of \$68.4 million in credit card processing fees as a result of increased online payments, an increase of \$16.0 million in professional services primarily to support the increase in sales, and an increase of \$6.2 million related to subscription to software-based services, partially offset by a decrease of \$14.6 million in marketing and sales event-related costs mainly due to a decrease in digital and awareness programs and trade shows.

General and Administrative

	Year Ended January 31,			
	2021	2020	\$ Change	% Change
	(in thousands, except percentages)			
General and administrative	\$ 320,547	\$ 86,841	\$ 233,706	269 %

General and administrative expense for the fiscal year ended January 31, 2021 increased by \$233.7 million, or 269%, compared to the fiscal year ended January 31, 2020. The increase in general and administrative expense was primarily due to an increase of \$71.8 million in personnel-related expenses mainly driven by additional headcount, which includes a \$32.2 million increase in stock-based compensation expense; and an increase of \$66.9 million related to professional services composed primarily of legal and other consulting fees. The remaining increase was primarily due to an increase of \$30.2 million related to a contingent liability for sales and other indirect taxes, an increase of \$25.7 million due to charitable donations related mainly to shares transferred to a donor advised fund, an increase of \$13.4 million related to subscription to software-based services, an increase of \$10.2 million related to insurance expenses and \$9.8 million for a one-time payment to MPEG LA, LLC (“MPEGLA”).

Interest Income and Other, Net

	Year Ended January 31,			
	2021	2020	\$ Change	% Change
	(in thousands, except percentages)			
Interest income and other, net	\$ 18,186	\$ 13,666	\$ 4,520	33 %

Interest income and other, net for the fiscal year ended January 31, 2021 increased by \$4.5 million, or 33%, compared to the fiscal year ended January 31, 2020. The increase was primarily attributable to a gain of \$3.5 million related to changes in foreign currency exchange rates and a gain of \$2.5 million related to the remeasurement of our equity investment.

Provision for Income Taxes

	Year Ended January 31,			
	2021	2020	\$ Change	% Change
	(in thousands, except percentages)			
Provision for income taxes	\$ 5,718	\$ 1,057	\$ 4,661	441 %

Provision for income taxes for the fiscal year ended January 31, 2021 increased by \$4.7 million, or 441%, compared to the fiscal year ended January 31, 2020. The change in provision for income taxes was primarily due to expansion in international operations.

For a discussion of the fiscal year ended January 31, 2020 compared to the fiscal year ended January 31, 2019, please refer to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

Liquidity and Capital Resources

As of January 31, 2021, our principal sources of liquidity were cash, cash equivalents, and marketable securities of \$4.2 billion, which were held for working capital purposes and for investment in growth opportunities. Our marketable securities generally consist of high-grade commercial paper, corporate bonds, agency bonds, corporate and other debt securities, U.S. government agency securities, and treasury bills.

We have financed our operations primarily through income from operations and sales of equity securities. Cash from operations could also be affected by various risks and uncertainties, including, but not limited to, the effects of the COVID-19 pandemic, including timing of cash collections from our customers and other risks detailed in the section titled "Risk Factors." However, based on our current business plan and revenue prospects, we believe our existing cash, cash equivalents, and marketable securities, together with net cash provided by operations, will be sufficient to meet our needs for at least the next 12 months and allow us to capitalize on growth opportunities. Our future capital requirements will depend on many factors, including our revenue growth rate, subscription renewal activity, billing frequency, the timing and extent of spending to support further sales and marketing and research and development efforts, as well as expenses associated with our international expansion, and the timing and extent of additional capital expenditures to invest in existing and new office spaces as well as data center infrastructure. We may, in the future, enter into arrangements to acquire or invest in complementary businesses, services, and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. 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 materially and adversely affected.

Cash Flows

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

	Year Ended January 31,		
	2021	2020	2019
	(in thousands)		
Net cash provided by operating activities	\$ 1,471,177	\$ 151,892	\$ 51,332
Net cash used in investing activities	\$ (1,562,420)	\$ (499,468)	\$ (39,719)
Net cash provided by financing activities	\$ 2,050,277	\$ 615,690	\$ 17,534

Operating Activities

Our largest source of operating cash is cash collections from our customers for subscriptions to our platform. Our primary uses of cash from operating activities are for employee-related expenditures, costs related to hosting our platform, and marketing expenses. Net cash provided by operating activities is impacted by our net income adjusted for certain non-cash items, such as stock-based compensation expense, depreciation and amortization expenses, as well as the effect of changes in operating assets and liabilities.

Net cash provided by operating activities was \$1,471.2 million for the fiscal year ended January 31, 2021, compared to \$151.9 million for the fiscal year ended January 31, 2020. The increase in operating cash flow was due to an increase in net income of \$647.0 million, the positive impact from changes in operating assets and liabilities of \$332.1 million, and an increase in non-cash adjustments of \$340.2 million, which is primarily a result of higher stock-based compensation expense, higher deferred contract acquisition cost amortization due to an increase in capitalized commissions as we continue to grow and expand our customer base, higher provision for accounts receivable allowances due to higher accounts receivable balances, and expenses related to a charitable donation of common stock in the current fiscal year.

Investing Activities

Net cash used in investing activities of \$1,562.4 million for the fiscal year ended January 31, 2021 was primarily due to net purchases of marketable securities of \$1,438.8 million, purchases of property and equipment of \$80.0 million, cash paid for acquisition, net of cash acquired, of \$26.5 million, purchase of an equity investment of \$8.0 million, purchases of intangible assets of \$5.8 million, and purchase of a convertible note of \$5.0 million.

Net cash used in investing activities of \$499.5 million for the fiscal year ended January 31, 2020 was primarily due to net purchases of marketable securities of \$456.7 million and purchases of property and equipment of \$38.1 million.

Financing Activities

Net cash provided by financing activities of \$2,050.3 million for the fiscal year ended January 31, 2021 was due to proceeds from our follow-on offering, net of underwriting discounts and commissions and other offering costs, of \$1,979.2

million, proceeds from issuance of common stock pursuant to our employee stock purchase plan (“ESPP”) of \$38.4 million, proceeds from the exercise of stock options of \$28.6 million, and proceeds from international employee stock sales to be remitted to employees and tax authorities of \$4.1 million.

Net cash provided by financing activities of \$615.7 million for the fiscal year ended January 31, 2020 was due to proceeds from the issuance of Class A common stock in connection with the IPO and private placement, net of underwriting discounts and commissions and other offering costs, of \$542.5 million, proceeds from international employee stock sales to be remitted to employees and tax authorities of \$48.5 million, proceeds from issuance of common stock pursuant to our ESPP of \$15.5 million, and proceeds from the exercise of stock options, net of repurchases, of \$9.2 million.

For a discussion of the fiscal year ended January 31, 2019, please refer to Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2020.

Commitments and Contractual Obligations

The following table summarizes our non-cancelable contractual obligations as of January 31, 2021:

	Total	Payments Due by Period			
		Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
(in thousands)					
Operating lease obligations	\$ 121,980	\$ 19,949	\$ 41,623	\$ 35,600	\$ 24,808
Non-cancelable purchase obligations	498,626	219,217	271,721	7,688	—
Total contractual obligations	<u>\$ 620,606</u>	<u>\$ 239,166</u>	<u>\$ 313,344</u>	<u>\$ 43,288</u>	<u>\$ 24,808</u>

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding. Obligations under contracts that we can cancel without a significant penalty are not included in the table above. See the “Future minimum lease payments” table in Note 7 and “Non-cancelable Purchase Obligations” in Note 8 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K for more details.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC under the Securities Act.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those accounting policies and estimates that are both the most important to the portrayal of our net assets and results of operations and require the most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These estimates are developed based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Critical accounting estimates are accounting estimates where the nature of the estimates are material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change and the impact of the estimates on financial condition or operating performance is material.

The critical accounting policies, estimates, assumptions, and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

Revenue Recognition

We derive our revenue primarily from subscription agreements with customers for access to our unified communications platform and services. We also provide other services, which include professional services, consulting services, and online event hosting, which were immaterial to our consolidated financial statements. Revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration that we expect to receive in exchange for these services. We determine revenue recognition through the following steps:

1. Identification of the contract, or contracts, with the customer

We determine a contract with a customer to exist when the contract is approved, each party's rights regarding the services to be transferred can be identified, the payment terms for the services can be identified, the customer has the ability and intent to pay, and the contract has commercial substance. At contract inception, we will evaluate whether two or more contracts should be combined and accounted for as a single contract and whether the combined or single contract includes more than one performance obligation. We apply judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

2. Identification of the performance obligations in the contract

Performance obligations committed in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the services or products is separately identifiable from other promises in the contract. Promised services or products under which both of these two criteria are not met are recognized as a combined, single performance obligation. Our performance obligations primarily relate to access to our unified communications platform, which consists of one or more software-based services. Our customers do not have the ability to take possession of our software, and through access to our platform, we provide a series of distinct software-based services that are satisfied over the term of the subscription.

3. Determination of the transaction price

The transaction price is determined based on the consideration to which we expect to be entitled in exchange for transferring services to the customer. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue recognized under the contract will not occur. None of our contracts contain a significant financing component. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental entities (e.g., sales and other indirect taxes).

Our unified communications platform and related services are typically warranted to perform in a professional manner that will comply with the terms of the subscription agreements. In addition, we include service-level commitments to our customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits in the event that we fail to meet those service levels. These credits represent a form of variable consideration. We have not provided any material refunds related to these agreements in the consolidated financial statements during the periods presented.

4. Allocation of the transaction price to the performance obligations in the contract

Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on each performance obligation's relative standalone selling price. Our contracts with multiple performance obligations are generally sold over the same subscription term and have the same pattern of transfer to the customer, and so they are accounted for as one combined performance obligation in the context of the contract. Accordingly, the transaction price is allocated to this single performance obligation.

5. Recognition of the revenue when, or as, a performance obligation is satisfied

Revenue is recognized at the time the related performance obligation is satisfied by transferring the control of the promised service to a customer. Revenue is recognized in an amount that reflects the consideration that we expect to receive in exchange for those services. Fees for access to our unified communications platform and related services are subscription revenue and are considered one performance obligation, and the related revenue is recognized ratably over the subscription period as we satisfy the performance obligation.

Contract Balances

We receive payments from customers based on a billing schedule as established in our customer contracts. Accounts receivable are recorded when we contractually have the right to consideration. In some arrangements, a right to consideration for our performance under the contract may occur before invoicing to the customer resulting in an unbilled accounts receivable.

Contract liabilities consist of deferred revenue. Revenue is deferred when we have the right to invoice in advance of performance under a customer contract. The current portion of deferred revenue balances are recognized during the following 12-month period.

Cost to Obtain a Contract

We primarily capitalize sales commissions and associated payroll taxes paid to internal sales personnel that are incremental costs from the acquisition of customer contracts. These costs are recorded as deferred contract acquisition costs in the consolidated balance sheets. We determine whether costs should be deferred based on our sales compensation plans and if the commissions are incremental and would not have occurred absent the customer contract.

Sales commissions paid upon the initial acquisition of a customer contract are amortized over an estimated period of benefit of three years, which is typically greater than the contractual terms of the customer contracts. We do not pay sales commissions upon contract renewal. Amortization is recognized on a straight-line basis commensurate with the pattern of revenue recognition. We determine the period of benefit for commissions paid for the acquisition of the initial customer contract by taking into consideration the initial estimated customer life and the technological life of our unified communications platform and related significant features. Amortization of deferred contract acquisition costs is included in sales and marketing expense in the consolidated statements of operations.

Allowance for Credit Losses

We maintain an allowance for credit losses for expected uncollectible accounts receivable, which is recorded as an offset to accounts receivable, and changes in such are classified as general and administrative expense in the consolidated statements of operations. The allowance for credit losses is based on management's estimate for expected credit losses for outstanding accounts receivable. We determine expected credit losses based on historical write-off experience, an analysis of the aging of outstanding receivables, customer payment patterns, the establishment of specific reserves for customers in an adverse financial condition, and adjust based upon our expectations of changes in macroeconomic conditions that may impact the collectibility of outstanding receivables, including noncurrent accounts receivable. We also consider current market conditions and reasonable and supportable forecasts of future economic conditions to inform adjustments to historical loss data. We reassess the adequacy of the allowance for credit losses each reporting period.

Business Combinations and Valuation of Goodwill and Intangible Assets

We account for our business combinations using the acquisition method of accounting, which requires, among other things, allocation of the fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed at their estimated fair values on the acquisition date. The excess of the fair value of purchase consideration over the values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair value of assets acquired and liabilities assumed, we make estimates and assumptions, especially with respect to intangible assets. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, not to exceed one year from the date of acquisition, we may record adjustments to the assets acquired and liabilities assumed, with a corresponding offset to goodwill if new information is obtained related to facts and circumstances that existed as of the acquisition date. After the measurement period, any subsequent adjustments are reflected in the consolidated statements of operations. Acquisition costs, such as legal and consulting fees, are expensed as incurred.

Goodwill amounts are not amortized, but rather tested for impairment at least annually, in the fourth quarter of each fiscal year, or more often if circumstances indicate that the carrying value may not be recoverable. As of January 31, 2021, no impairment of goodwill has been identified.

Intangible assets consist of acquired identifiable intangible assets resulting from business combinations, as well as other intangible assets purchased outside of a business combination. Finite-lived intangible assets are initially recorded at fair value and are amortized on a straight-line basis over their estimated useful lives. We routinely evaluate the estimated remaining useful lives of our finite-lived intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. Indefinite-lived intangible assets are recorded at fair value and are not amortized. We review the useful lives of indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support the indefinite useful life classification. If we determine that the life of an intangible asset is no longer indefinite, that asset would be tested for impairment and amortized prospectively over its estimated remaining useful life. We have not recorded any impairment charges during the fiscal years presented.

Stock-Based Compensation

Stock-based compensation expense related to stock awards is recognized based on the fair value of the awards granted. The fair value of each option award is estimated on the grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock. The assumptions used to determine the fair value of the option awards

represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. The related stock-based compensation expense is recognized on a straight-line basis over the requisite service period of the awards, which is generally four years. We account for forfeitures as they occur instead of estimating the number of awards expected to be forfeited.

As noted above, our use of the Black-Scholes option-pricing model requires the input of highly subjective assumptions. If factors change and different assumptions are used, our stock-based compensation expense could be materially different for the current period and in the future.

These assumptions and estimates used in the Black-Scholes option-pricing model are as follows:

- *Fair Value of Common Stock.* Prior to our IPO, the fair value was determined by our board of directors, with input from management and valuation reports prepared by third-party valuation specialists. Stock-based compensation for financial reporting purposes is measured based on updated estimates of fair value when appropriate, such as when additional relevant information related to the estimate becomes available in a valuation report issued as of a subsequent date. After our IPO, the fair value of common stock for each grant date was determined based on the closing price of our Class A common stock as reported on the date of the respective grant.
- *Risk-Free Interest Rate.* The risk-free interest rate for the expected term of the options was based on the U.S. Treasury yield curve in effect at the time of the grant.
- *Expected Term.* The expected term of options represents the period of time that options are expected to be outstanding. Our historical stock option exercise experience does not provide a reasonable basis upon which to estimate an expected term due to a lack of sufficient data. For stock options granted to employees, we estimate the expected term by using the simplified method. The simplified method calculates the expected term as the average of the time-to-vesting and the contractual life of the options. For stock options granted to non-employees, the expected term equals the contractual term of the option.
- *Expected Volatility.* As we have a limited trading history for our common stock, the expected volatility was estimated by taking the average historic price volatility for industry peers, consisting of several public companies in our industry, which are either similar in size, stage of life cycle, or financial leverage, over a period equivalent to the expected term of the awards.
- *Expected Dividend Yield.* We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. As a result, an expected dividend yield of zero percent was used.

Common Stock Valuations

In valuing our common stock prior to our IPO, the fair value of our business, or enterprise value, was determined using either the market approach or a combination of the market and income approaches. The market approach estimates value based on a comparison of the subject company to comparable public companies in a similar line of business and secondary transactions of our capital stock. From the comparable companies, a representative market value multiple is determined and then applied to the subject company's financial results to estimate the value of the subject company. The market approach also includes consideration of the transaction price of secondary sales of our capital stock by investors. The income approach estimates the fair value of a company based on the present value of our future estimated cash flows and our residual value beyond the forecast period. These future cash flows, including the cash flows beyond the forecast period for the residual value, are discounted to their present values using an appropriate discount rate, to reflect the risks inherent in us achieving these estimated cash flows.

The resulting equity value is then allocated to each class of stock using an Option Pricing Model ("OPM"). The OPM treats common stock and convertible preferred stock as call options on an equity value, with exercise prices based on the liquidation preference of our convertible preferred stock. The common stock is modeled as a call option with a claim on the equity value at an exercise price equal to the remaining value immediately after our convertible preferred stock is liquidated. The exclusive reliance on the OPM through July 31, 2018 was appropriate when the range of possible future outcomes was difficult to predict and resulted in a highly speculative forecast. Beginning in October 2018, we performed the equity allocation using a probability weighted expected return method ("PWERM"). The PWERM involves the estimation of the value of our company under multiple future potential outcomes, and estimates the probability of each potential outcome. The per share value of our common stock when determined using the PWERM was ultimately based upon probability-weighted per share values resulting from the various future scenarios, which include an IPO, merger or sale, or continued operation as a private company. After the equity value was determined and allocated to the various classes of shares, a discount for lack of marketability ("DLOM") was applied to arrive at the fair value of common stock on a non-marketable basis. A DLOM is applied based on the theory that as an owner of a private company stock, the stockholder has limited information and opportunities to sell this stock.

A market participant that would purchase this stock would recognize this risk and thereby require a higher rate of return, which would reduce the overall fair market value.

Prior to the completion of our IPO on April 18, 2019, our assessments of the fair value of common stock for grant dates were based in part on the current available financial and operational information and the common stock value provided in the most recent valuation as compared to the timing of each grant. For financial reporting purposes, we considered the amount of time between the valuation date and the grant date to determine whether to use the latest common stock valuation or a straight-line interpolation between the two valuation dates. This determination included an evaluation of whether the subsequent valuation indicated that any significant change in valuation had occurred between the previous valuation and the grant date.

For valuation after our IPO, the fair value of common stock for each grant date was determined based on the closing price of our Class A common stock as reported on the Nasdaq Global Select Market on the date of the respective grant.

Employee Stock Purchase Plan Valuation

We account for stock-based compensation expense related to our ESPP purchase rights based on the estimated grant date fair value, which is calculated using the Black-Scholes option pricing model and the aggregate number of shares of our common stock expected to be purchased under each offering. The assumptions used to determine the fair value of the ESPP purchase rights, including the expected term of the awards, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock, represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. The related stock-based compensation expense is recognized on a straight-line basis over the term of each ESPP offering period, which is generally two years. We account for modifications to employee contributions as they occur.

Our use of the Black-Scholes option-pricing model requires the input of highly subjective assumptions. If factors change and different assumptions are used, our stock-based compensation expense could be materially different for the current period and in the future.

These assumptions and estimates used in the Black-Scholes option-pricing model are as follows:

- *Risk-Free Interest Rate.* The risk-free interest rate for the expected term of the awards was based on the U.S. Treasury yield curve in effect at the time of the grant.
- *Expected Term.* The expected term of the ESPP represents the period of time that purchase rights are expected to be outstanding.
- *Expected Volatility.* For the ESPP purchase rights granted during the fiscal year ended January 31, 2020, as we have a limited trading history for our common stock, the expected volatility was estimated by taking the average historic price volatility for industry peers, consisting of several public companies in our industry which are either similar in size, stage of life cycle, or financial leverage, over a period equivalent to the expected term of the awards. For the ESPP purchase rights granted during the fiscal year ended January 31, 2021, expected volatility was determined using a combination of the implied volatility of publicly traded options in our stock and historical volatility of our stock price.
- *Expected Dividend Yield.* We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. As a result, an expected dividend yield of zero percent was used.

Recent Accounting Pronouncements

See "Summary of Business and Significant Accounting Policies" in Note 1 to our consolidated financial statements included in Part II, Item 8 of this Form 10-K.

Item 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency and Exchange Risk

The vast majority of our cash generated from revenue is denominated in U.S. dollars, with a small amount denominated in foreign currencies. Our expenses are generally denominated in the currencies of the jurisdictions in which we conduct our operations, which are primarily in the United States, China, Europe, and Australia. Our results of current and future operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a material impact on our historical consolidated financial statements for the fiscal years ended January 31, 2021, 2020, and 2019. As the impact of

foreign currency exchange rates has not been material to our historical operating results, we have not entered into derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency becomes more significant.

Interest Rate Risk

We had cash and cash equivalents of \$2.2 billion and marketable securities of \$2.0 billion as of January 31, 2021. Cash and cash equivalents consist of bank deposits, money market funds, high-grade commercial paper, and agency bonds. Our marketable securities generally consist of high-grade commercial paper, agency bonds, corporate and other debt securities, U.S. government agency securities, and treasury bills. The cash and cash equivalents and marketable securities are held for working capital purposes. Such interest-earning instruments carry a degree of interest rate risk. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. Due to the short-term nature of our investments, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our historical consolidated financial statements for the fiscal years ended January 31, 2021, 2020, and 2019.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

ZOOM VIDEO COMMUNICATIONS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Zoom Video Communications, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Zoom Video Communications, Inc. and subsidiaries (the Company) as of January 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, convertible preferred stock and stockholders' (deficit) equity, and cash flows for each of the years in the three-year period ended January 31, 2021, and the related notes and financial statement schedule II: valuation and qualifying accounts (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of January 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2021, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2021 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of February 1, 2019, due to the adoption of Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 842, *Leases*.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions

and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Sufficiency of Audit Evidence Over Revenue

As discussed in Notes 1 and 2 to the consolidated financial statements, the Company's revenue is principally derived from the sale of subscriptions to the Company's video communications platform. The Company recorded \$2,651 million of revenue for the year ended January 31, 2021.

We identified the evaluation of sufficiency of audit evidence over revenue as a critical audit matter. This matter required especially subjective auditor judgment because the Company's revenue recognition process is highly automated and is reliant upon a number of customized and proprietary information technology (IT) systems. Involvement of IT professionals with specialized skills and knowledge was required to assist with the performance of certain procedures and determination of IT applications subject to testing.

The following are the primary procedures we performed to address this critical audit matter. We applied auditor judgment to determine the nature and extent of procedures to be performed over revenue. We evaluated the design and tested the operating effectiveness of certain internal controls related to revenue recognition. This included certain controls related to the Company's general information technology and application controls related to the systems utilized within the Company's revenue recognition process. We involved IT professionals with specialized skills and knowledge, who assisted in testing the IT controls of the various systems interacting with the Company's revenue recognition process. We recalculated revenue for system-generated sales transactions during the year using a software audit tool. For a sample of transactions, we compared the amounts recognized for consistency with underlying documentation, including contracts with customers and cash receipts, and recalculated the amount of revenue recognized in the period based on the terms of the arrangement and the satisfaction of the underlying performance obligation. In addition, we evaluated the sufficiency of audit evidence obtained over revenue by assessing the results of procedures performed.

/s/ KPMG LLP

We have served as the Company's auditor since 2016.

Santa Clara, California
March 18, 2021

ZOOM VIDEO COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of January 31,	
	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,240,303	\$ 283,134
Marketable securities	2,004,410	572,060
Accounts receivable, net of allowances of \$36,844 and \$7,634 as of January 31, 2021 and 2020, respectively	294,703	120,435
Deferred contract acquisition costs, current	136,630	44,885
Prepaid expenses and other current assets	116,819	75,008
Total current assets	4,792,865	1,095,522
Deferred contract acquisition costs, noncurrent	157,262	46,245
Property and equipment, net	149,924	57,138
Operating lease right-of-use assets	97,649	68,608
Goodwill	24,340	—
Other assets, noncurrent	75,953	22,332
Total assets	\$ 5,297,993	\$ 1,289,845
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 8,664	\$ 1,596
Accrued expenses and other current liabilities	393,018	122,692
Deferred revenue, current	858,284	209,542
Total current liabilities	1,259,966	333,830
Deferred revenue, noncurrent	25,211	20,994
Operating lease liabilities, noncurrent	90,415	64,792
Other liabilities, noncurrent	61,634	36,286
Total liabilities	1,437,226	455,902
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value per share, 200,000,000 shares authorized as of January 31, 2021 and 2020; zero shares issued and outstanding as of January 31, 2021 and 2020	—	—
Common stock, \$0.001 par value per share, 2,000,000,000 Class A shares authorized as of January 31, 2021 and 2020; 215,737,924 and 123,391,114 shares issued and outstanding as of January 31, 2021 and 2020, respectively; 300,000,000 Class B shares authorized as of January 31, 2021 and 2020; 77,811,299 and 155,336,747 shares issued and outstanding as of January 31, 2021 and 2020, respectively	292	277
Additional paid-in capital	3,187,168	832,705
Accumulated other comprehensive income	839	809
Retained earnings	672,468	152
Total stockholders' equity	3,860,767	833,943
Total liabilities and stockholders' equity	\$ 5,297,993	\$ 1,289,845

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM VIDEO COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Year Ended January 31,		
	2021	2020	2019
Revenue	\$ 2,651,368	\$ 622,658	\$ 330,517
Cost of revenue	821,989	115,396	61,001
Gross profit	1,829,379	507,262	269,516
Operating expenses:			
Research and development	164,080	67,079	33,014
Sales and marketing	684,904	340,646	185,821
General and administrative	320,547	86,841	44,514
Total operating expenses	1,169,531	494,566	263,349
Income from operations	659,848	12,696	6,167
Interest income and other, net	18,186	13,666	2,182
Income before provision for income taxes	678,034	26,362	8,349
Provision for income taxes	5,718	1,057	765
Net income	672,316	25,305	7,584
Undistributed earnings attributable to participating securities	(789)	(3,555)	(7,584)
Net income attributable to common stockholders	\$ 671,527	\$ 21,750	\$ 0
Net income per share attributable to common stockholders:			
Basic	\$ 2.37	\$ 0.09	\$ 0.00
Diluted	\$ 2.25	\$ 0.09	\$ 0.00
Weighted-average shares used in computing net income per share attributable to common stockholders:			
Basic	283,853,654	233,641,336	84,483,094
Diluted	298,127,669	254,298,014	116,005,681

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM VIDEO COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year Ended January 31,		
	2021	2020	2019
Net income	\$ 672,316	\$ 25,305	\$ 7,584
Other comprehensive income:			
Unrealized gain on available-for-sale marketable securities, net of tax	30	944	396
Comprehensive income	<u>\$ 672,346</u>	<u>\$ 26,249</u>	<u>\$ 7,980</u>

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM VIDEO COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' (DEFICIT) EQUITY
(in thousands, except share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	(Accumulated Deficit) Retained Earnings	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount				
Balance as of January 31, 2018	152,665,804	\$ 159,552	82,609,638	\$ 80	\$ 6,517	\$ (531)	\$ (32,737)	\$ (26,671)
Issuance of common stock upon exercise of stock options	—	—	7,717,797	9	2,302	—	—	2,311
Stock-based compensation expense	—	—	—	—	8,941	—	—	8,941
Other comprehensive income	—	—	—	—	—	396	—	396
Net income	—	—	—	—	—	—	7,584	7,584
Balance as of January 31, 2019	152,665,804	\$ 159,552	90,327,435	\$ 89	\$ 17,760	\$ (135)	\$ (25,153)	\$ (7,439)
Conversion of convertible preferred stock to common stock upon initial public offering	(152,665,804)	(159,552)	152,665,804	153	159,399	—	—	159,552
Conversion of convertible promissory notes and accrued interest to common stock upon initial public offering	—	—	426,223	—	15,344	—	—	15,344
Issuance of common stock upon initial public offering and private placement, net of underwriting discounts and commissions and other offering costs	—	—	15,819,646	16	541,483	—	—	541,499
Issuance of common stock upon exercise of stock options, net of repurchases and release of restricted stock units	—	—	18,501,767	19	9,752	—	—	9,771
Issuance of common stock reserved for charitable donations	—	—	500,000	—	—	—	—	—
Issuance of common stock for employee stock purchase plan	—	—	490,268	—	15,482	—	—	15,482
Stock-based compensation expense	—	—	—	—	73,485	—	—	73,485
Other comprehensive income	—	—	—	—	—	944	—	944
Net income	—	—	—	—	—	—	25,305	25,305
Balance as of January 31, 2020	—	\$ —	278,731,143	\$ 277	\$ 832,705	\$ 809	\$ 152	\$ 833,943
Issuance of common stock upon follow-on public offering, net of underwriting discounts and commissions and other offering costs	—	—	5,882,353	6	1,979,538	—	—	1,979,544
Issuance of common stock upon exercise of stock options	—	—	7,378,477	7	29,100	—	—	29,107
Issuance of common stock upon release of restricted stock units	—	—	633,697	1	—	—	—	1
Charitable donation of common stock	—	—	—	—	23,312	—	—	23,312
Issuance of common stock for employee stock purchase plan	—	—	923,553	1	38,432	—	—	38,433
Stock-based compensation expense	—	—	—	—	284,081	—	—	284,081
Other comprehensive income	—	—	—	—	—	30	—	30
Net income	—	—	—	—	—	—	672,316	672,316
Balance as of January 31, 2021	—	\$ —	293,549,223	\$ 292	\$ 3,187,168	\$ 839	\$ 672,468	\$ 3,860,767

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM VIDEO COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended January 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 672,316	\$ 25,305	\$ 7,584
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation expense	275,818	73,109	8,941
Amortization of deferred contract acquisition costs	104,306	37,101	20,839
Provision for accounts receivable allowances	32,007	6,370	1,953
Depreciation and amortization	28,857	16,449	7,008
Charitable donation of common stock	23,312	—	—
Non-cash operating lease cost	10,887	6,885	—
Other	3,822	(1,068)	37
Changes in operating assets and liabilities:			
Accounts receivable	(219,039)	(64,715)	(41,040)
Prepaid expenses and other assets	(68,521)	(24,805)	(7,971)
Deferred contract acquisition costs	(307,068)	(72,714)	(45,769)
Accounts payable	3,481	(2,030)	832
Accrued expenses and other liabilities	251,654	51,179	27,407
Deferred revenue	665,724	106,286	71,511
Operating lease liabilities, net	(6,379)	(5,460)	—
Net cash provided by operating activities	1,471,177	151,892	51,332
Cash flows from investing activities:			
Purchases of marketable securities	(2,056,470)	(800,228)	(78,016)
Maturities of marketable securities	580,795	343,554	68,747
Sales of marketable securities	36,897	—	—
Purchases of property and equipment	(79,972)	(38,084)	(28,432)
Cash paid for acquisition, net of cash acquired	(26,486)	—	—
Purchase of equity investment	(8,000)	(3,000)	—
Purchases of intangible assets	(5,843)	(141)	(2,018)
Purchase of convertible promissory note	(5,000)	—	—
Other	1,659	(1,569)	—
Net cash used in investing activities	(1,562,420)	(499,468)	(39,719)
Cash flows from financing activities:			
Proceeds from follow-on public offering, net of underwriting discounts and commissions and other offering costs	1,979,206	—	—
Proceeds from issuance of common stock for employee stock purchase plan	38,433	15,482	—
Proceeds from exercise of stock options, net of repurchases	28,550	9,169	3,565
Proceeds from employee equity transactions to be remitted to employees and tax authorities, net	4,088	48,547	—
Proceeds from initial public offering and private placement, net of underwriting discounts and commissions and other offering costs	—	542,492	(939)
Proceeds from issuance of convertible promissory notes and derivatives	—	—	15,000
Principal payments on capital lease obligations	—	—	(92)
Net cash provided by financing activities	2,050,277	615,690	17,534
Net increase in cash, cash equivalents, and restricted cash	1,959,034	268,114	29,147
Cash, cash equivalents, and restricted cash—beginning of year	334,082	65,968	36,821
Cash, cash equivalents, and restricted cash—end of year	\$ 2,293,116	\$ 334,082	\$ 65,968

Supplemental disclosures of cash flow information			
Cash paid for income taxes, net	\$ 3,181	\$ 1,070	\$ 214
Supplemental disclosures of non-cash investing and financing information			
Conversion of convertible preferred stock to Class B common stock upon initial public offering	\$ —	\$ 159,552	\$ —
Conversion of debt to Class A common stock	\$ —	\$ 15,344	\$ —
Purchase of equipment during the period included in accounts payable and accrued expenses	\$ 34,514	\$ 1,422	\$ 3,284
Vesting of early exercised stock options and restricted stock awards	\$ 558	\$ 725	\$ 277
Deferred offering costs, accrued but not paid	\$ —	\$ —	\$ 1,490
Reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets to the amounts shown in the consolidated statements of cash flows above:			
Cash and cash equivalents	\$ 2,240,303	\$ 283,134	\$ 63,624
Restricted cash, current included in prepaid expenses and other current assets	50,575	48,647	200
Restricted cash, noncurrent included in other assets, noncurrent	2,238	2,301	2,144
Total cash, cash equivalents, and restricted cash	\$ 2,293,116	\$ 334,082	\$ 65,968

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM VIDEO COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Business and Significant Accounting Policies

Description of Business

Zoom Video Communications, Inc. and its subsidiaries (collectively, “Zoom,” the “Company,” “we,” “us,” or “our”) provide a video-first unified communications platform that delivers happiness and fundamentally changes how people interact. We connect people through frictionless and secure video, phone, chat, and content sharing and enable face-to-face video experiences for thousands of people in a single meeting across disparate devices and locations. We were incorporated in the state of Delaware in April 2011, and are headquartered in San Jose, California.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal year 2021, for example, refer to the fiscal year ended January 31, 2021.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and include the accounts of Zoom Video Communications, Inc., its subsidiaries, and a variable interest entity for which we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include, but are not limited to, the estimated expected benefit period for deferred contract acquisition costs, the allowance for credit losses, the useful lives of long-lived assets, the incremental borrowing rate for operating leases, stock-based compensation expense, sales and other tax liabilities, the fair value of marketable securities, equity investment, convertible promissory note, acquired intangible assets and goodwill, and the valuation of deferred income tax assets and uncertain tax positions. Actual results could differ from those estimates.

The COVID-19 pandemic has created, and may continue to create, significant uncertainty in macroeconomic conditions, and the extent of its impact on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak and the impact on our customers and our sales cycles. During the fiscal years ended January 31, 2021 and 2020, our estimates and assumptions required increased judgment and carried a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, our estimates may change materially in future periods.

Concentration of Risks

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, restricted cash, and accounts receivable. We maintain our cash, cash equivalents, marketable securities, and restricted cash with high-quality financial institutions with investment-grade ratings. A majority of the cash balances are with U.S. banks and are insured to the extent defined by the Federal Deposit Insurance Corporation.

No single customer accounted for more than 10% of accounts receivable at January 31, 2021 or 2020. No single customer accounted for 10% or more of total revenue during the fiscal years ended January 31, 2021, 2020, or 2019.

Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents consist of cash in banks and highly liquid investments, primarily money market funds, purchased with an original maturity of three months or less.

Restricted cash consists of certificates of deposit collateralizing our operating leases, corporate credit cards, and cash from proceeds from international employees’ sales of our common stock, and is included in prepaid expenses and other current assets and other assets, noncurrent in the consolidated balance sheets.

As of January 31, 2021 and 2020, we had \$50.5 million and \$48.5 million, respectively, of cash from proceeds from international employees’ sales of our common stock. The amount is held in our bank account until it is remitted to the

employees and the tax authorities. Due to the restrictions on the use of the funds in the bank account, we have classified the amount as restricted cash included in prepaid expenses and other current assets, and a corresponding amount is included in accrued expenses and other current liabilities in the consolidated balance sheets.

Allowance for Credit Losses

We are exposed to credit losses primarily through our accounts receivable and investments in available-for-sale debt securities. See Note 3 for additional information related to our available-for-sale debt securities.

Accounts receivable, net

Accounts receivable are recorded for invoiced amounts and amounts for which revenue has been recognized, but not invoiced, net of allowances. Our short-term accounts receivable consist of the following:

	As of January 31, 2021
	(in thousands)
Accounts receivable, gross	\$ 331,547
Less: Allowance for credit losses	(20,500)
Less: Allowance for returns	(16,344)
Accounts receivable, net	<u>\$ 294,703</u>

We maintain an allowance for credit losses for expected uncollectible accounts receivable, which is recorded as an offset to accounts receivable, and changes in such are classified as general and administrative expense in the consolidated statements of operations. The allowance for credit losses is based on management's estimate for expected credit losses for outstanding accounts receivable. We determine expected credit losses based on historical write-off experience, an analysis of the aging of outstanding receivables, customer payment patterns, the establishment of specific reserves for customers in an adverse financial condition, and adjust based upon our expectations of changes in macroeconomic conditions that may impact the collectibility of outstanding receivables, including noncurrent accounts receivable. We also consider current market conditions and reasonable and supportable forecasts of future economic conditions to inform adjustments to historical loss data. We reassess the adequacy of the allowance for credit losses each reporting period. Furthermore, the allowance for sales returns is recorded as an offset to accounts receivable, and changes to the allowance are classified as a reduction in revenue in the consolidated statements of operations. We estimate returns from sales to customers based on historical chargebacks and return rates.

For the fiscal year ended January 31, 2021, our assessment considered business and market disruptions caused by COVID-19 and estimates of credit and collectibility trends. The continued volatility in market conditions and evolving shifts in credit trends are difficult to predict, causing variability and volatility that may have a material impact on our allowance for credit losses in future periods. Below is a rollforward of our allowance for credit losses for the fiscal year ended January 31, 2021.

	(in thousands)
Balance as of January 31, 2020	\$ 5,150
Provision for credit losses	25,651
Write-offs	(10,301)
Balance as of January 31, 2021	<u>\$ 20,500</u>

Available-for-sale Investments

Available-for-sale investments consist primarily of high-grade commercial paper, agency bonds, corporate bonds, corporate and other debt securities, U.S. government agency securities, and treasury bills. We classify our marketable securities as available-for-sale at the time of purchase and reevaluate such classification at each balance sheet date. We may sell these securities at any time for use in current operations even if they have not yet reached maturity. As a result, we classify our securities, including those with maturities beyond 12 months, as current assets in the consolidated balance sheets. We carry these securities at fair value and record unrealized gains and losses in accumulated other comprehensive income, which is reflected as a component of stockholders' equity. We evaluate our securities with unrealized loss positions as to whether the declines in fair value were due to credit losses, and record the portion of impairment relating to the credit losses through allowance for credit losses limited to the amount that fair value was less than the amortized cost basis. Realized gains and losses from the sale of marketable securities are determined based on the specific identification method. Realized gains and losses are reported in interest income and other, net in the consolidated statements of operations.

Fair Value Measurements

Fair value is defined as the exchange price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We measure financial assets and liabilities at fair value at each reporting period using a fair value hierarchy, which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial instruments consist of cash equivalents, restricted cash, marketable securities, accounts receivable, and accounts payable. Cash equivalents, restricted cash, and marketable securities are stated at fair value on a recurring basis. Accounts receivable and accounts payable are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment date.

Property and Equipment, Net

Property and equipment, net, are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the respective assets, determined to be three to five years. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful life of five years. Expenditures for maintenance and repairs are expensed as incurred. Significant improvements and betterments that substantially enhance the life of an asset are capitalized.

Software Development Costs

We capitalize certain development costs related to our unified communications platform during the application development stage as long as it is probable the project will be completed, and the software will be used to perform the function intended. Capitalized software development costs are recorded as part of property and equipment, net. Costs related to preliminary project activities and post-implementation activities are expensed as incurred. Capitalized software development costs are amortized on a straight-line basis over the software's estimated useful life, which is generally three years, and are recorded in cost of revenue in the consolidated statements of operations. We evaluate the useful lives of these assets on an annual basis and test for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. We have capitalized \$19.4 million, \$3.1 million, and \$2.5 million of software development costs during the fiscal years ended January 31, 2021, 2020, and 2019, respectively.

Leases

We adopted Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)* and applicable updates as of February 1, 2019, using the modified retrospective method of applying the new standard at the adoption date. Prior year comparative financial information was not recast under the new standard and continues to be presented under Accounting Standards Codification ("ASC") 840.

All lease arrangements are generally recognized at lease commencement. Operating lease right-of-use ("ROU") assets and operating lease liabilities are recognized at commencement. For short-term leases (an initial term of 12 months or less), an ROU asset and corresponding lease liability are not recorded and we record rent expense in our consolidated statements of operations on a straight-line basis over the lease term and record variable lease payments as incurred. ROU assets represent our right to use an underlying asset during the reasonably certain lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of fixed payments not yet paid over the lease term. We use our incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as our leases generally do not provide an implicit rate. Our incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, in an economic environment where the leased asset is located. ROU assets also include any initial direct costs incurred and any lease payments made at or before the lease commencement date, less lease

incentives received. We reassess the lease term if and when a significant event or change in circumstances occurs within our control. We currently do not have any finance leases.

Impairment of Long-Lived Assets

We evaluate long-lived assets or asset groups for impairment whenever events indicate that the carrying value of an asset or asset group may not be recoverable based on expected future cash flows attributable to that asset or asset group. Recoverability of assets held and used is measured by comparing the carrying amount of an asset or an asset group to estimated undiscounted future net cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds estimated undiscounted future cash flows, then an impairment charge would be recognized based on the excess of the carrying amount of the asset or asset group over its fair value. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less costs to sell. There were no impairment charges recognized related to long-lived assets during the fiscal years ended January 31, 2021, 2020, or 2019.

Business Combinations

We account for our business combinations using the acquisition method of accounting, which requires, among other things, allocation of the fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed at their estimated fair values on the acquisition date. The excess of the fair value of purchase consideration over the values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair value of assets acquired and liabilities assumed, we make estimates and assumptions, especially with respect to intangible assets. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, not to exceed one year from the date of acquisition, we may record adjustments to the assets acquired and liabilities assumed, with a corresponding offset to goodwill if new information is obtained related to facts and circumstances that existed as of the acquisition date. After the measurement period, any subsequent adjustments are reflected in the consolidated statements of operations. Acquisition costs, such as legal and consulting fees, are expensed as incurred.

Uncertain tax positions and tax-related valuation allowances are initially established in connection with a business combination as of the acquisition date. We continue to collect information and reevaluate these estimates and assumptions quarterly. We will record any adjustments to our preliminary estimates to goodwill, provided that it is within the one-year measurement period.

Goodwill and Intangible Assets

Goodwill amounts are not amortized, but rather tested for impairment at least annually or more often if circumstances indicate that the carrying value may not be recoverable. Goodwill is considered impaired if the carrying value of the reporting unit exceeds its fair value. We have one reporting unit and as a result, goodwill has been assigned to the single reporting unit. We conducted our annual impairment test of goodwill in the fourth quarter of fiscal year 2021 and determined that no adjustment to the carrying value of goodwill was required.

Intangible assets consist of acquired identifiable intangible assets resulting from business combinations, as well as other intangible assets purchased outside of a business combination, such as domains and intellectual property addresses. Finite-lived intangible assets are initially recorded at fair value and are amortized on a straight-line basis over their estimated useful lives. Amortization expense of developed technology is recorded within cost of revenue in the consolidated statements of operations. We routinely evaluate the estimated remaining useful lives of our finite-lived intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. Indefinite-lived intangible assets are recorded at fair value and are not amortized. We review the useful lives of indefinite-lived intangible assets each reporting period to determine whether events and circumstances continue to support the indefinite useful life classification. If we determine that the life of an intangible asset is no longer indefinite, that asset would be tested for impairment and amortized prospectively over its estimated remaining useful life. There were no impairment charges to acquired intangible assets during the fiscal year ended January 31, 2021.

Revenue Recognition

We derive our revenue primarily from subscription agreements with customers for access to our unified communications platform and services. We also provide other services, which include professional services, consulting services, and online event hosting, which were immaterial to our consolidated financial statements. Revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration that we expect to receive in exchange for these services. We determine revenue recognition through the following steps:

1. Identification of the contract, or contracts, with the customer

We determine a contract with a customer to exist when the contract is approved, each party's rights regarding the services to be transferred can be identified, the payment terms for the services can be identified, the customer has the ability and intent to pay, and the contract has commercial substance. At contract inception, we will evaluate whether two or more contracts should be combined and accounted for as a single contract and whether the combined or single contract includes more than one performance obligation. We apply judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

2. Identification of the performance obligations in the contract

Performance obligations committed in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the services or products is separately identifiable from other promises in the contract. Promised services or products under which both of these two criteria are not met are recognized as a combined, single performance obligation. Our performance obligations primarily relate to access to our unified communications platform, which consists of one or more software-based services. Our customers do not have the ability to take possession of our software, and through access to our platform, we provide a series of distinct software-based services that are satisfied over the term of the subscription.

3. Determination of the transaction price

The transaction price is determined based on the consideration to which we expect to be entitled in exchange for transferring services to the customer. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue recognized under the contract will not occur. None of our contracts contain a significant financing component. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental entities (e.g., sales and other indirect taxes).

Our unified communications platform and related services are typically warranted to perform in a professional manner that will comply with the terms of the subscription agreements. In addition, we include service-level commitments to our customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits in the event that we fail to meet those service levels. These credits represent a form of variable consideration. We have not provided any material refunds related to these agreements in the consolidated financial statements during the periods presented.

4. Allocation of the transaction price to the performance obligations in the contract

Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on each performance obligation's relative standalone selling price. Our contracts with multiple performance obligations are generally sold over the same subscription term and have the same pattern of transfer to the customer, and so they are accounted for as one combined performance obligation in the context of the contract. Accordingly, the transaction price is allocated to this single performance obligation.

5. Recognition of the revenue when, or as, a performance obligation is satisfied

Revenue is recognized at the time the related performance obligation is satisfied by transferring the control of the promised service to a customer. Revenue is recognized in an amount that reflects the consideration that we expect to receive in exchange for those services. Fees for access to our unified communications platform and related services are subscription revenue and are considered one performance obligation, and the related revenue is recognized ratably over the subscription period as we satisfy the performance obligation.

Professional services are time-based arrangements and revenue is recognized as these services are performed. Fees for services represent less than 2% of total revenue during the periods presented.

Cost of Revenue

Cost of revenue primarily consists of costs related to hosting our unified communications platform and providing general operating support services to our customers. These costs are composed of co-located data center costs, third-party cloud hosting costs, integrated third-party PSTN services, personnel-related expenses, amortization of capitalized software development costs and acquired intangible assets, royalty payments, and allocated overhead costs. Indirect overhead costs associated with corporate facilities and related depreciation is allocated to cost of revenue and operating expenses based on applicable headcount.

Research and Development

Research and development costs include personnel-related expenses associated with our engineering personnel and consultants responsible for the design, development, and testing of our unified communications platform, depreciation of equipment used in research and development, and allocated overhead costs. Research and development costs are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred in sales and marketing expense and amounted to \$34.8 million, \$42.0 million, and \$36.1 million for the fiscal years ended January 31, 2021, 2020, and 2019, respectively.

Stock-Based Compensation

Stock-based compensation expense related to stock awards (including stock options, restricted stock awards (“RSAs”), RSUs, and ESPP) is measured based on the fair value of the awards granted and recognized as an expense on a straight-line basis over the requisite service period.

The fair value of each option and ESPP award is estimated on the grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, the expected term of the award, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock.

The fair value of each RSA and RSU award is based on the fair value of the underlying common stock as of the grant date.

The assumptions used to determine the fair value of the stock awards represent management’s best estimates. These estimates involve inherent uncertainties and the application of management’s judgment. We account for forfeitures as they occur instead of estimating the number of awards expected to be forfeited.

Foreign Currency

The functional currency of our foreign subsidiaries is the U.S. dollar. Accordingly, monetary assets and liabilities of our foreign subsidiaries are remeasured into U.S. dollars at the exchange rates in effect at the reporting date, non-monetary assets and liabilities are remeasured at historical rates, and revenue and expenses are remeasured at average exchange rates in effect during each reporting period. Foreign currency related gains and losses have been immaterial during the periods presented.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the extent we believe it is more likely than not that they will not be realized. We consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, carryback potential if permitted under the tax law, and results of recent operations.

We record uncertain tax positions in accordance with ASC 740, *Income Taxes* on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. We consider many factors when evaluating our uncertain tax positions, which involve significant judgment and may require periodic adjustments. The resolution of these uncertain tax positions in a manner inconsistent with management’s expectations could have a material impact on our consolidated financial statements. We recognize interest and penalties related to uncertain tax positions as a component of our provision for income taxes. Accrued interest and penalties are included with the related tax liability.

Net Income Per Share Attributable to Common Stockholders

We calculate our net income per share attributable to Class A and Class B common stock using the two-class method required for companies with participating securities. We consider our convertible preferred stock and unvested common stock,

which includes early exercised stock options and RSAs, to be participating securities as holders of such securities have non-forfeitable dividend rights in the event of our declaration of a dividend for shares of common stock.

Distributed and undistributed earnings allocated to participating securities are subtracted from net income in determining net income attributable to common stockholders. Basic net income per share is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of our Class A and Class B common stock outstanding.

The diluted net income per share attributable to common stockholders is computed by giving effect to all dilutive securities. Diluted net income per share attributable to common stockholders is computed by dividing the resulting net income attributable to common stockholders by the weighted-average number of fully diluted common shares outstanding.

Segment Information

We operate in one operating segment. Operating segments are defined as components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker, who is our Chief Executive Officer (“CEO”), in deciding how to allocate resources and assessing performance. Our chief operating decision maker allocates resources and assesses performance based upon consolidated financial information.

Revenue by geographical region can be found in the revenue recognition disclosures in Note 2 below. The following table presents our property and equipment, net of depreciation and amortization, by geographic region:

	As of January 31,	
	2021	2020
	(in thousands)	
Americas	\$ 138,093	\$ 48,519
APAC	10,033	7,464
EMEA	1,798	1,155
Total property and equipment, net	<u>\$ 149,924</u>	<u>\$ 57,138</u>

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which was subsequently amended by ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, in November 2018. Subsequently, the FASB issued ASU No. 2019-04, ASU No. 2019-05, ASU No. 2019-10, and ASU No. 2019-11 to provide additional guidance on the credit losses standard. ASU No. 2016-13 and the related updates replace the existing incurred loss impairment model with an expected credit loss model, and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. We adopted the standard as of February 1, 2020, using the modified retrospective method of applying the new standard at the adoption date. Our adoption did not result in any cumulative effect adjustment in our consolidated financial statements upon adoption as of February 1, 2020.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). We adopted ASU No. 2018-15, prospectively, as of February 1, 2020, and our adoption did not have a material impact on the consolidated financial statements.

2. Revenue Recognition

Disaggregation of Revenue

The following table summarizes revenue by region based on the billing address of customers:

	Year Ended January 31,					
	2021		2020		2019	
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue
	(in thousands, except percentages)					
Americas	\$ 1,831,694	69 %	\$ 500,622	81 %	\$ 270,132	82 %
APAC	332,844	13	51,152	8	27,720	8
EMEA	486,830	18	70,884	11	32,665	10
Total	\$ 2,651,368	100 %	\$ 622,658	100 %	\$ 330,517	100 %

Contract Balances

We receive payments from customers based on a billing schedule as established in our customer contracts. Accounts receivable are recorded when we contractually have the right to consideration. In some arrangements, a right to consideration for our performance under the customer contract may occur before invoicing to the customer, resulting in an unbilled accounts receivable. The amount of unbilled accounts receivable included within accounts receivable, net of allowances in the consolidated balance sheets was \$24.6 million and \$12.5 million as of January 31, 2021 and 2020, respectively.

Contract liabilities consist of deferred revenue. Revenue is deferred when we have the right to invoice in advance of performance under a customer contract. The current portion of deferred revenue balances is recognized over the next 12 months. The amount of revenue recognized during the fiscal years ended January 31, 2021, 2020, and 2019 that was included in deferred revenue at the beginning of each period was \$222.0 million, \$119.1 million, and \$50.3 million, respectively.

Remaining Performance Obligation

The terms of our subscription agreements are monthly, annual, and multiyear and we may bill for the full term in advance or on an annual, quarterly, or monthly basis, depending on the billing terms with customers. As of January 31, 2021, the aggregate amount of the transaction price allocated to our remaining performance obligations was \$1,750.9 million, which consists of both billed consideration in the amount of \$883.5 million and unbilled consideration in the amount of \$867.4 million that we expect to recognize as revenue. We expect to recognize 70% of our remaining performance obligations as revenue over the next 12 months and the remainder thereafter.

Cost to Obtain a Contract

We primarily capitalize sales commissions and associated payroll taxes paid to internal sales personnel that are incremental costs from the acquisition of customer contracts. These costs are recorded as deferred contract acquisition costs in the consolidated balance sheets. We determine whether costs should be deferred based on our sales compensation plans and if the commissions are incremental and would not have occurred absent the customer contract.

Sales commissions paid upon the initial acquisition of a customer contract are amortized over an estimated period of benefit of three years, which is typically greater than the contractual terms of the customer contracts. We do not pay sales commissions upon contract renewal. Amortization is recognized on a straight-line basis commensurate with the pattern of revenue recognition. We determine the period of benefit for commissions paid for the acquisition of the initial customer contract by taking into consideration the initial estimated customer life and the technological life of our unified communications platform and related significant features. Amortization of deferred contract acquisition costs is included in sales and marketing expense in the consolidated statements of operations.

We periodically review these deferred contract acquisition costs to determine whether events or changes in circumstances have occurred that could impact the period of benefit. There were no impairment losses recorded during the periods presented.

The following table represents a rollforward of deferred contract acquisition costs:

	Year Ended January 31,	
	2021	2020
(in thousands)		
Beginning balance	\$ 91,130	\$ 55,516
Additions to deferred contract acquisition costs	307,068	72,715
Amortization of deferred contract acquisition costs	(104,306)	(37,101)
Ending balance	\$ 293,892	\$ 91,130
Deferred contract acquisition costs, current (to be amortized in next 12 months)	\$ 136,630	\$ 44,885
Deferred contract acquisition costs, noncurrent	157,262	46,245
Total deferred contract acquisition costs	\$ 293,892	\$ 91,130

3. Marketable Securities

As of January 31, 2021 and 2020, our marketable securities consisted of the following:

	As of January 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
Commercial paper	\$ 26,222	\$ —	\$ —	\$ 26,222
Agency bonds	461,335	79	(49)	461,365
Corporate and other debt securities	465,207	1,113	(64)	466,256
U.S. government agency securities	834,894	28	(257)	834,665
Treasury bills	215,902	6	(6)	215,902
Marketable securities	\$ 2,003,560	\$ 1,226	\$ (376)	\$ 2,004,410

	As of January 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(in thousands)				
Commercial paper	\$ 37,894	\$ —	\$ —	\$ 37,894
Agency bonds	141,157	49	(43)	141,163
Corporate and other debt securities	320,407	775	(16)	321,166
U.S. government agency securities	71,794	45	(2)	71,837
Marketable securities	\$ 571,252	\$ 869	\$ (61)	\$ 572,060

We review the individual securities that have unrealized losses on a regular basis to evaluate whether or not any security has experienced, or is expected to experience, credit losses resulting in the decline in fair value. We evaluate, among other factors, whether we have the intention to sell any of these marketable securities and whether it is more likely than not that we will be required to sell any of them before recovery of the amortized cost basis. We have not recorded an allowance for credit losses, as we believe any such losses would be immaterial based on the high-grade credit rating for each of our marketable securities as of the end of each fiscal year. There were no material realized gains or losses from available-for-sale securities that were reclassified out of accumulated other comprehensive income for the fiscal years ended January 31, 2021, 2020, and 2019.

The following table presents the contractual maturities of our marketable securities as of January 31, 2021 and 2020:

	As of January 31,	
	2021	2020
	(in thousands)	
Less than one year	\$ 1,017,048	\$ 315,900
Due in one to five years	987,362	256,160
Total	<u>\$ 2,004,410</u>	<u>\$ 572,060</u>

4. Fair Value Measurements

The following tables present information about our financial instruments that are measured at fair value on a recurring basis and indicate the fair value hierarchy of the valuation inputs utilized to determine such fair value:

	As of January 31, 2021			
	Fair Value	Level 1	Level 2	Level 3
	(in thousands)			
Financial Assets:				
Money market funds	\$ 958,357	\$ 958,357	\$ —	\$ —
Treasury bills	618,498	—	618,498	—
Cash equivalents	1,576,855	958,357	618,498	—
Commercial paper	26,222	—	26,222	—
Agency bonds	461,365	—	461,365	—
Corporate and other debt securities	466,256	—	466,256	—
U.S. government agency securities	834,665	—	834,665	—
Treasury bills	215,902	—	215,902	—
Marketable securities	2,004,410	—	2,004,410	—
Certificate of deposit included in prepaid expenses and other current assets	100	—	100	—
Certificates of deposit included in other assets, noncurrent	2,238	—	2,238	—
Convertible note included in other assets, noncurrent	5,130	—	—	5,130
Total financial assets	<u>\$ 3,588,733</u>	<u>\$ 958,357</u>	<u>\$ 2,625,246</u>	<u>\$ 5,130</u>

	As of January 31, 2020			
	Fair Value	Level 1	Level 2	Level 3
	(in thousands)			
Financial Assets:				
Money market funds	\$ 96,486	\$ 96,486	\$ —	\$ —
Commercial paper	4,994	—	4,994	—
Agency bonds	9,999	—	9,999	—
Cash equivalents	111,479	96,486	14,993	—
Commercial paper	37,894	—	37,894	—
Agency bonds	141,163	—	141,163	—
Corporate and other debt securities	321,166	—	321,166	—
U.S. government agency securities	71,837	—	71,837	—
Marketable securities	572,060	—	572,060	—
Certificate of deposit included in prepaid expenses and other current assets	100	—	100	—
Certificates of deposit included in other assets, noncurrent	2,301	—	2,301	—
Total financial assets	<u>\$ 685,940</u>	<u>\$ 96,486</u>	<u>\$ 589,454</u>	<u>\$ —</u>

We classify our highly liquid money market funds within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. We classify our commercial paper, agency bonds, corporate and other debt securities, U.S. government agency securities, treasury bills, and certificates of deposit within Level 2 because they are valued using inputs other than quoted prices that are directly or indirectly observable in the market, including readily available pricing sources for the identical underlying security, which may not be actively traded. We classify the convertible note as Level 3 due to the lack of relevant observable market data over fair value inputs, such as the probability weighting of the various scenarios that can impact settlement of the arrangement.

We hold a non-marketable equity investment in a private company in the business of designing and developing video communications hardware. We do not have a controlling financial interest in the investee nor the ability to exercise significant influence over the operating and financial policies of the investee. We have elected to measure this investment, which does not have a readily determinable fair value, at its cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer (i.e., using the measurement alternative). As of January 31, 2021 and 2020, the carrying amount of the equity investment was \$13.5 million and \$3.0 million, respectively. We classify the equity investment as Level 3 within the fair value hierarchy only if an impairment or observable adjustment is recognized during the period, as it is based on an observable transaction price at the transaction date and other unobservable inputs, such as volatility.

5. Business Combinations

On May 7, 2020, we acquired 100% of the issued and outstanding share capital of Keybase, Inc. (“Keybase”), a secure messaging and file-sharing company, for purchase consideration of \$42.9 million in cash. The acquisition helps us strengthen the security of our video communications platform by providing end-to-end encryption expertise. The acquisition has been accounted for as a business combination.

In allocating the purchase consideration, \$24.3 million was attributed to goodwill, \$3.3 million to intangible assets, and \$15.3 million to other net assets acquired primarily consisting of cash and cash equivalents of \$16.4 million. The goodwill amount represents synergies related to our existing products expected to be realized from the acquisition and assembled workforce. The associated goodwill is not deductible for tax purposes. Acquired intangible assets consisted of developed technology with an estimated useful life of five years. The developed technology had a remaining useful life of 4.3 years as of January 31, 2021, and is amortized using the straight-line method over its estimated useful life.

Not included in the purchase consideration, we also entered into holdback agreements with certain employees for \$20.0 million in cash payments, which are subject to such employees’ continued service with us. The holdback amount of \$20.0 million will be treated as compensation for research and development over the required service period ranging from one to three years.

Transaction costs incurred in connection with the acquisition were immaterial. The results of operations of Keybase have been included in our consolidated financial statements from the date of the acquisition. Pro forma and historical results of operations of Keybase have not been presented, as the results do not have a material effect on any of the periods presented in our consolidated statements of operations.

6. Balance Sheet Components***Prepaid Expenses and Other Current Assets***

Prepaid expenses and other current assets consisted of the following:

	As of January 31,	
	2021	2020
	(in thousands)	
Prepaid expenses	60,702	22,320
Restricted cash from international employee stock sales	50,475	48,547
Other	5,642	4,141
Prepaid expenses and other current assets	<u>\$ 116,819</u>	<u>\$ 75,008</u>

Property and Equipment, Net

Property and equipment consisted of the following:

	As of January 31,	
	2021	2020
	(in thousands)	
Computer and office equipment	\$ 137,445	\$ 51,375
Software	36,216	10,855
Leasehold improvements	23,593	18,215
Furniture and fixtures	4,625	3,949
Property and equipment, gross	<u>201,879</u>	<u>84,394</u>
Less: accumulated depreciation and amortization	<u>(51,955)</u>	<u>(27,256)</u>
Property and equipment, net	<u>\$ 149,924</u>	<u>\$ 57,138</u>

Depreciation and amortization expense was \$28.4 million, \$16.4 million, and \$7.0 million for the fiscal years ended January 31, 2021, 2020, and 2019, respectively.

Other Assets, Noncurrent

Other assets, noncurrent consisted of the following:

	As of January 31,	
	2021	2020
	(in thousands)	
Accounts receivable, noncurrent	\$ 28,008	\$ 9,011
Equity investment	13,538	3,000
Prepaid expense, noncurrent	12,386	2,945
Indefinite-lived intangible assets	8,002	2,159
Convertible note	5,130	—
Intangible assets subject to amortization, net	2,814	—
Other	6,075	5,217
Other assets, noncurrent	<u>\$ 75,953</u>	<u>\$ 22,332</u>

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	As of January 31,	
	2021	2020
	(in thousands)	
Accrued expenses	\$ 157,167	\$ 17,475
Accrued compensation and benefits	118,640	36,732
Proceeds from employee equity transactions to be remitted to employees and tax authorities	54,174	49,287
Sales and other tax liabilities	27,453	3,774
Customer deposit liabilities	13,050	3,414
Operating lease liabilities, current	15,601	7,675
Other	6,933	4,335
Accrued expenses and other current liabilities	<u>\$ 393,018</u>	<u>\$ 122,692</u>

Other Liabilities, Noncurrent

Other liabilities, noncurrent consisted of the following:

	As of January 31,	
	2021	2020
	(in thousands)	
Sales and other tax liabilities	\$ 58,133	\$ 33,957
Other	3,501	2,329
Other liabilities, noncurrent	<u>\$ 61,634</u>	<u>\$ 36,286</u>

7. Operating Leases

We have entered into various operating lease agreements for office space, with remaining contractual periods of up to 9 years. We also enter into equipment operating lease agreements related to our HaaS offering. As a practical expedient, we account for HaaS with customers as a combined performance obligation with the right to access our unified communications platform under ASC 606, *Revenue from Contracts with Customers*. HaaS was immaterial to our consolidated financial statements. Many of our leases contain one or more options to extend. As leases approach maturity, we consider various factors such as market conditions and the terms of any renewal options that may exist to determine whether we are reasonably certain to exercise the options to extend the lease. Operating lease expense for the fiscal years ended January 31, 2021 and 2020 was \$14.5 million and \$9.7 million, respectively, excluding short-term lease costs, variable lease costs, and sublease income, each of which was immaterial for the fiscal years ended January 31, 2021 and 2020. Rent expense was \$7.2 million for the fiscal year ended January 31, 2019, under Topic 840.

Supplemental balance sheet information related to operating leases was as follows:

	As of January 31,	
	2021	2020
	(in thousands)	
Reported as:		
Assets:		
Operating lease right-of-use assets	\$ 97,649	\$ 68,608
Liabilities:		
Accrued expenses and other current liabilities	\$ 15,601	\$ 7,675
Operating lease liabilities, noncurrent	90,415	64,792
Total operating lease liabilities	\$ 106,016	\$ 72,467
Weighted average remaining lease term	6.1 years	7.5 years
Weighted average discount rate	4.5 %	5.1 %

Supplemental cash flow and other information related to operating leases was as follows:

	Year Ended January 31,	
	2021	2020
	(in thousands)	
Cash payments included in the measurement of our operating lease liabilities	\$ 13,717	\$ 9,774
Operating lease right-of-use assets recognized in exchange for new operating lease obligations	\$ 39,918	\$ 34,993

As of January 31, 2021, the future minimum lease payments included in the measurement of our operating lease liabilities are as follows:

Year Ending January 31,	As of January 31, 2021	
	(in thousands)	
2022	\$	19,949
2023		21,313
2024		20,310
2025		20,216
2026		15,384
Thereafter		24,808
Total operating lease payments	\$	121,980
Less: imputed interest		(15,964)
Total operating lease liabilities	\$	106,016

8. Commitments and Contingencies

Non-cancelable Purchase Obligations

In the normal course of business, we enter into non-cancelable purchase commitments with various parties to purchase primarily software-based services. As of January 31, 2021, we had outstanding non-cancelable purchase obligations with a term of 12 months or longer of \$498.6 million.

License Agreement

In May 2020, we entered into a license agreement with MPEGLA to obtain the rights for future use of licensed intellectual property in exchange for periodic royalty payments. In connection with the license agreement, we made an initial

royalty payment of \$9.8 million to use the technology until December 31, 2020 and we made an additional payment of \$9.8 million in the fourth quarter of fiscal year 2021 to use the technology until December 31, 2021. Both payments were amortized in cost of revenue on a straight-line basis in our consolidated statements of operations. For the fiscal year ended January 31, 2021, we recorded \$10.6 million of such costs. In addition, we made a one-time payment of \$9.8 million for past use, which was recorded in general and administrative expenses in our consolidated statements of operations for the fiscal year ended January 31, 2021.

Indemnifications and Contingency

Our agreements with certain larger customers include certain provisions for indemnifying customers against liabilities if our services infringe a third party's intellectual property rights. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances that may be involved in each particular agreement. To date, we have not incurred any material costs as a result of such provisions and have not accrued any liabilities related to such obligations in our consolidated financial statements.

In addition, we have indemnification agreements with our directors and our executive officers that require us, among other things, to indemnify our directors and executive officers for costs associated with any fees, expenses, judgments, fines, and settlement amounts incurred by any of those persons in any action or proceeding to which any of those persons is, or is threatened to be, made a party by reason of the person's service as a director or officer, including any action by us, arising out of that person's services as our director or officer or that person's services provided to any other company or enterprise at our request. We maintain director and officer insurance coverage that may enable us to recover a portion of any future indemnification amounts paid. To date, there have been no claims under any of our directors' and executive officers' indemnification provisions.

Sales and Other Tax Liabilities

We conduct operations in many tax jurisdictions. In many jurisdictions, non-income-based taxes, such as sales and use tax and other indirect taxes, are assessed on our operations. Although we are diligent in collecting and remitting such taxes, there is uncertainty as to what constitutes sufficient presence for a jurisdiction to levy taxes, fees, and surcharges for sales made over the Internet. As of January 31, 2021 and 2020, we recorded sales and other tax liabilities of \$85.6 million and \$37.7 million, respectively, of which \$27.5 million and \$3.7 million are included in accrued expenses and other current liabilities, respectively, and \$58.1 million and \$34.0 million are included in other liabilities, noncurrent, respectively, in our consolidated balance sheets, based on our best estimate of the probable liability for the loss contingency incurred as of those dates. Our estimate of a probable outcome under the loss contingency is based on analysis of our sales and marketing activities, revenue subject to sales tax, and applicable regulations in applicable jurisdictions in each period. No significant adjustments to the sales and other tax liabilities have been recognized in the accompanying consolidated financial statements for changes to the assumptions underlying the estimate; however, changes in our assumptions may occur in the future as we obtain new information, which can result in adjustments to the recorded liability.

Other Contingencies

Our platform and associated products are subject to various restrictions under U.S. export control and sanctions laws and regulations, including the U.S. Department of Commerce's EAR and various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls ("OFAC"). The U.S. export control laws and U.S. economic sanctions laws include restrictions or prohibitions on the sale or supply of certain products and services to U.S. embargoed or sanctioned countries, governments, persons, and entities, and also require authorization for the export of certain encryption items. In addition, various countries regulate the import of certain encryption technology, including through import permitting and licensing requirements and have enacted or could enact laws that could limit our ability to distribute our platform or could limit our hosts' ability to implement our platform in those countries.

Although we take precautions to prevent our platform and associated products from being accessed or used in violation of such laws, we have inadvertently allowed our platform and associated products to be accessed or used by some customers in apparent violation of U.S. economic sanction laws. In addition, we may have inadvertently made our software products available to some customers, including users in embargoed or sanctioned countries, in apparent violation of the EAR. As a result, we have submitted initial and final voluntary self-disclosures concerning potential violations of U.S. sanctions and export control laws and regulations to the OFAC and the U.S. Department of Commerce's BIS. In June 2019, OFAC and BIS issued us warning letters as their final enforcement responses to these potential violations, but no fines or penalties were assessed. If we are found to be in violation of U.S. economic sanctions or export control laws in the future, it could result in fines and penalties.

In June 2020 we received a grand jury subpoena from the Department of Justice's U.S. Attorney's Office for Eastern District of New York ("EDNY"), which requested information regarding our interactions with foreign governments and foreign

political parties, including the Chinese government, as well as information regarding storage of and access to user data, the development and implementation of Zoom’s privacy policies, and the actions we took relating to the Tiananmen commemorations on Zoom. In July 2020, we received subpoenas from the Department of Justice’s U.S. Attorney’s Office for the Northern District of California (“NDCA”) and the SEC. Both subpoenas seek documents and information relating to various security, data protection and privacy matters, including our encryption, and our statements relating thereto, as well as calculation of usage metrics and related public statements. In addition, the NDCA subpoena seeks information relating to any contacts between our employees and representatives of the Chinese government, and any attempted or successful influence by any foreign government in our policies, procedures, practices, and actions as they relate to users in the United States. We have since received additional subpoenas from EDNY and NDCA seeking related information. We are fully cooperating with all of these investigations and have been conducting our own thorough internal investigation. These investigations are ongoing, and we do not know when they will be completed, which facts we will ultimately discover as a result of the investigations, or what actions the government may or may not take. We cannot predict the outcome of these investigations, and a negative outcome in any or all of these matters could cause us to incur substantial fines, penalties, or other financial exposure.

Legal Proceedings

Beginning on March 30, 2020, multiple putative class actions have been filed against us in various U.S. federal district courts and state courts relating to our alleged privacy and security practices, including alleged data sharing with third parties (the “U.S. Privacy Class Actions”). We have also been sued under the DC private attorney general statute on behalf of members of the general public. The plaintiffs claim violations of a variety of state consumer protection and privacy laws, and also assert state constitutional and common law claims such as negligence and unjust enrichment. The U.S. Privacy Class Actions seek to certify both nationwide and state-specific classes of individuals using our services in certain time periods. The plaintiffs seek various forms of injunctive and monetary relief, including restitution, statutory and actual damages, punitive damages, and attorneys’ fees. The federal cases have been transferred to and consolidated in the Northern District of California with our consent; lead plaintiffs’ counsel have been appointed; and plaintiffs filed their first amended consolidated class action complaint on October 28, 2020. We filed a motion to dismiss the first amended consolidated class action complaint on December 2, 2020, which is pending ruling by the court, and the parties are presently engaged in discovery, with plaintiffs’ motion for class certification due on June 25, 2021.

On April 7, 2020, and April 8, 2020, securities class action complaints were filed against us and two of our officers in the United States District Court for the Northern District of California. The plaintiffs are purported stockholders of the Company. The complaints allege, among other things, that we violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, and Rule 10b-5 by making false and misleading statements and omissions of material fact about our data privacy and security measures. The complaints seek unspecified damages, interest, fees, and costs. On May 18, 2020, the actions were consolidated. On November 4, 2020, the court appointed a lead plaintiff. On December 23, 2020, the lead plaintiff filed a consolidated complaint. The response to the complaint is currently stayed while the court considers a motion for reconsideration regarding its lead plaintiff appointment.

On June 11, 2020 and July 30, 2020, purported shareholder derivative complaints were filed in the United States District Court for the District of Delaware. The first complaint names as defendants nine of our officers and directors and the second complaint names eight of our officers and directors. The lawsuits assert state and federal claims and are based on the same alleged misstatements as the shareholder class action complaint. The lawsuits accuse our board of directors of failing to exercise reasonable and prudent supervision over our management, policies, practices, and internal controls. The plaintiffs seek unspecified monetary damages on behalf of us as well as governance reforms. On September 25, 2020, the derivative cases were consolidated. The consolidated case is stayed pending resolution of a forthcoming motion to dismiss the securities class action.

We believe these lawsuits are without merit, and we are vigorously defending ourselves against them. Given the uncertainty of litigation, the preliminary stage of the cases, and the legal standards that must be met for, among other things, class certification and success on the merits, we cannot estimate the reasonably possible loss or range of loss that may result from these actions.

In September 2019, the FTC issued a CID to us requiring us to produce certain documents and materials and to answer certain interrogatories relating to our privacy and security representations and practices. Since then, we have fully cooperated with the investigation. In October 2020, we reached a proposed settlement agreement with the FTC staff, which would resolve the FTC’s allegations that certain of our statements and practices about our security constituted deceptive and unfair acts or practices in violation of the FTC Act. On November 10, 2020, the FTC Commissioners voted to approve the settlement and, on November 13, 2020, the FTC published the settlement in the Federal Register for a 30-day public comment period, which ended on December 13, 2020. On January 19, 2021, the FTC voted to finalize the settlement. Under the terms of the settlement, we neither admit nor deny the FTC’s allegations, and the FTC does not impose any fine or penalty upon us. We are required to implement certain injunctive provisions, including, among other things, refraining from making any misrepresentations

regarding the privacy and security of our services or how we collect, maintain, use, delete, disclose, allow access to, and protect user information. It also requires us to implement a detailed information security program and obtain third-party security assessments periodically.

We do not expect the settlement to have a material impact on our financial results. We will cooperate with the FTC's requirements and work to ensure compliance. Any failure to comply with the settlement may increase the possibility of additional adverse consequences, including litigation, additional regulatory actions, injunctions, or monetary penalties, or require further changes to our business practices, significant management time, or the diversion of significant operational resources, all of which could result in a material loss or otherwise harm our business.

In addition, from time to time, we are involved in various other legal proceedings arising from the normal course of business activities. We are not presently a party to any other such litigation the outcome of which, we believe, if determined adversely to us, would individually, or taken together, have a material adverse effect on our business, operating results, cash flows, or financial condition. Defending such proceedings is costly and can impose a significant burden on management and employees. We may receive unfavorable preliminary or interim rulings in the course of litigation, and there can be no assurances that favorable final outcomes will be obtained.

9. Convertible Preferred Stock, Stockholders' Equity (Deficit), and Equity Incentive Plans

Convertible Preferred Stock

Upon completion of the IPO in April 2019, all shares of convertible preferred stock outstanding, totaling 152,665,804 shares, were automatically converted into an equivalent number of shares of Class B common stock on a one-to-one basis and their carrying value of \$159.6 million was reclassified into stockholders' equity. As of January 31, 2021 and 2020, there were no shares of convertible preferred stock issued and outstanding.

In connection with the IPO, our amended and restated certificate of incorporation became effective, which authorized the issuance of 200,000,000 shares of undesignated preferred stock with a par value of \$0.001 with rights and preferences, including voting rights, designated from time to time by our board of directors.

Dual-Class Common Stock Structure

In November 2018, we implemented a dual class common stock structure pursuant to which all the then-outstanding shares of our common stock were reclassified as Class B common stock and a new class of Class A common stock was authorized. The Class A common stock is entitled to one vote per share and the Class B common stock is entitled to 10 votes per share. The Class A and Class B common stock have the same dividend and liquidation rights. Each share of Class B common stock will automatically convert into one share of Class A common stock upon (a) any transfer of such share, except for certain permitted transfers described in our amended and restated certificate of incorporation and (b) the death of the holder of such share. In addition, each share of Class B common stock will be automatically converted into one share of Class A common stock upon the earliest of (a) the date that is six months following the death or incapacity of Eric S. Yuan (our CEO), (b) the date that is six months following the date that Mr. Yuan is no longer providing services to us or his employment is terminated for cause, (c) the date specified by the holders of a majority of the then-outstanding shares of convertible preferred stock, voting together on an as-converted basis, and the holders of a majority of the then-outstanding shares of Class B common stock, voting as a separate class, and (d) the 15-year anniversary of the closing of our IPO. In connection with the implementation of the dual-class common stock structure, each then-outstanding share of our convertible preferred stock became convertible into one share of Class B common stock, and all outstanding options to purchase shares of common stock became options to purchase an equivalent number of shares of Class B common stock.

Upon the effectiveness of the amended and restated certificate of incorporation in November 2018, the number of shares of common stock that is authorized to be issued consisted of 320,000,000 shares of Class A common stock, \$0.001 par value per share and 300,000,000 shares of Class B common stock, \$0.001 par value per share. Class A and Class B common stock are collectively referred to as "common stock" throughout the notes to the consolidated financial statements, unless otherwise noted.

Equity Financing

On April 23, 2019, we completed our IPO, in which we issued and sold 9,911,434 shares of our Class A common stock at \$36.00 per share. On April 18, 2019, the underwriters exercised their option to purchase an additional 3,130,435 shares of our Class A common stock at \$36.00 per share. We received aggregate proceeds of \$447.9 million, net of underwriters' discounts and commissions. In connection with the IPO:

- all of the shares of convertible preferred stock outstanding automatically converted into an aggregate of 152,665,804 shares of Class B common stock;

- outstanding convertible promissory notes and accrued interest automatically converted into 426,223 shares of Class A common stock based on the IPO price of \$36.00 per share; and
- Salesforce Ventures LLC purchased 2,777,777 shares of Class A common stock from us at \$36.00 per share in a concurrent private placement. We received aggregate proceeds of \$100.0 million and did not pay any underwriting discounts or commissions with respect to the shares of Class A common stock that were sold in this private placement.

Deferred offering costs consist primarily of accounting, legal, and other fees related to our IPO. Prior to the IPO, all deferred offering costs were capitalized in other assets, noncurrent in the consolidated balance sheets. After the IPO, \$6.4 million of deferred offering costs were reclassified into stockholders' equity (deficit) as a reduction of the IPO proceeds in the consolidated balance sheets. We capitalized \$2.4 million of deferred offering costs within other assets, noncurrent in the consolidated balance sheet as of January 31, 2019, which were reclassified into additional paid-in capital upon the completion of the IPO.

On January 15, 2021, we completed our follow-on public offering, in which we issued and sold 5,882,353 shares of our Class A common stock, including 735,294 shares pursuant to the full exercise of the underwriter's option to purchase additional shares, at \$340.00 per share. We received aggregate proceeds of \$1,980.0 million, net of underwriters' discounts and commissions. The other related offering costs were immaterial.

Common Stock

Upon the completion of the IPO in April 2019, our amended and restated certificate of incorporation became effective, which also authorized the issuance of 2,000,000,000 shares of Class A common stock, \$0.001 par value per share and 300,000,000 shares of Class B common stock, \$0.001 par value per share.

We have the following shares of Class A common stock reserved for future issuance:

	As of January 31,	
	2021	2020
Stock options outstanding	9,239,504	16,833,009
RSUs outstanding	4,510,730	1,964,668
ESPP purchase rights outstanding	724,883	1,323,662
Remaining shares available for future issuance under the 2011 and 2019 plan	44,584,783	33,604,587
Remaining shares available for future issuance under the ESPP	9,648,574	7,186,070
Total shares of Class A common stock reserved	<u>68,708,474</u>	<u>60,911,996</u>

Equity Incentive Plans

In 2011, we adopted the 2011 Global Share Plan ("2011 Plan"), under which officers, employees, and consultants were granted various forms of equity incentive compensation at the discretion of the board of directors, including stock options and restricted stock awards. In connection with the IPO, the shares of Class B common stock remaining available for issuance under the 2011 Plan became available for issuance for a corresponding number of shares of our Class A common stock under the 2019 Equity Incentive Plan ("2019 Plan"), which is a successor to and continuation of our 2011 Plan.

In April 2019, we adopted the 2019 Plan, which became effective in connection with our IPO. Our 2019 Plan provides for the grant of stock options, stock appreciation rights, RSAs, RSU awards, performance awards, and other forms of awards. The maximum number of shares of our Class A common stock that may be issued under our 2019 Plan will not exceed 58,300,889 shares of our Class A common stock, which is the sum of (1) 34,000,000 new shares, plus (2) an additional number of shares not to exceed 24,300,889, consisting of (A) shares that remain available for the issuance of awards under our 2011 Plan as of immediately prior to the time our 2019 Plan becomes effective and (B) shares of Class B common stock subject to outstanding stock options or other stock awards granted under our 2011 Plan that, on or after the 2019 Plan became effective, terminate, or expire prior to exercise or settlement; are not issued because the award is settled in cash; are forfeited because of the failure to vest; or are reacquired or withheld (or not issued) to satisfy a tax withholding obligation or the purchase or exercise price, if any, as such shares become available from time to time. In addition, the number of shares of our Class A common stock reserved for issuance under our 2019 Plan automatically increases on February 1 of each calendar year, starting on February 1, 2020 through February 1, 2029, in an amount equal to (i) 5% of the total number of shares of our common stock (both Class A and Class B) outstanding on January 31 of the fiscal year before the date of each automatic increase or (ii) a lesser number of shares determined by our board of directors prior to the applicable February 1.

Stock Options

A summary of stock option activity under our equity incentive plan and related information is as follows:

	Stock Options			
	Outstanding Stock Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
	(in thousands, except share, life and per share data)			
Balance as of January 31, 2020	16,833,009	\$ 5.73	7.6	\$ 1,191,881
Granted	—	\$ —		
Exercised	(7,378,477)	\$ 3.87		\$ 1,786,657
Canceled/forfeited/expired	(215,028)	\$ 8.05		
Balance as of January 31, 2021	9,239,504	\$ 7.17	7.0	\$ 3,371,457
Vested and exercisable as of January 31, 2021	4,641,908	\$ 3.98	6.6	\$ 1,708,663

There were no options granted for the fiscal year ended January 31, 2021. The weighted-average grant date fair value of options granted to employees during the fiscal years ended January 31, 2020 and 2019 was \$25.17 and \$6.28, respectively. The intrinsic value of the options exercised, which represents the difference between the fair market value of our common stock on the date of exercise and the exercise price of each option, was \$1,786.7 million, \$767.3 million, and \$60.8 million during the fiscal years ended January 31, 2021, 2020, and 2019, respectively. As of January 31, 2021, unrecognized stock-based compensation expense related to outstanding unvested stock options was \$46.7 million, which is expected to be recognized over a weighted-average period of 1.4 years.

The Black-Scholes assumptions used to value the employee options at the grant dates are as follows:

	Year ended January 31,	
	2020	2019
Expected term (years)	5.0 - 6.1	5.0 - 6.2
Expected volatility	49.9% - 53.2%	44.6% - 48.2%
Risk-free interest rate	1.6% - 2.5%	2.6% - 3.1%
Expected dividend yield	—	—

These assumptions and estimates were determined as follows:

- *Fair Value of Common Stock.* Prior to our IPO, the fair value was determined by our board of directors, with input from management and valuation reports prepared by third-party valuation specialists. Stock-based compensation for financial reporting purposes is measured based on updated estimates of fair value when appropriate, such as when additional relevant information related to the estimate becomes available in a valuation report issued as of a subsequent date. After our initial public offering, the fair value of each share of underlying common stock was based on the closing price of our Class A common stock as reported on the date of the grant.
- *Risk-Free Interest Rate.* The risk-free interest rate for the expected term of the options was based on the U.S. Treasury yield curve in effect at the time of the grant.
- *Expected Term.* The expected term of options represents the period of time that options are expected to be outstanding. Our historical stock option exercise experience does not provide a reasonable basis upon which to estimate an expected term due to a lack of sufficient data. For stock options granted to employees, we estimate the expected term by using the simplified method. The simplified method calculates the expected term as the average of the time-to-vesting and the contractual life of the stock options. For stock options granted to nonemployees, the expected term equals the contractual term of the stock option.
- *Expected Volatility.* As we have a short trading history for our common stock, the expected volatility was estimated by taking the average historic price volatility for industry peers, consisting of several public companies in our industry that are similar in size, stage of life cycle, or financial leverage, over a period equivalent to the expected term of the awards.
- *Expected Dividend Yield.* We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. As a result, an expected dividend yield of zero percent was used.

Restricted Stock Units

A summary of RSU activity under our equity incentive plan and related information is as follows:

	RSUs	
	Unvested RSUs	Weighted-Average Grant Date Fair Value Per Share
Unvested as of January 31, 2020	1,964,668	\$ 79.11
Granted	3,351,979	\$ 241.32
Vested	(625,163)	\$ 86.29
Canceled/forfeited	(180,754)	\$ 181.18
Unvested as of January 31, 2021	4,510,730	\$ 194.57

As of January 31, 2021, unrecognized stock-based compensation expense related to outstanding unvested RSUs was \$734.6 million, which is expected to be recognized over a weighted-average period of 2.7 years.

2019 Employee Stock Purchase Plan

In April 2019, we adopted the 2019 ESPP, which became effective in connection with the IPO. A total of 9,000,000 shares of our Class A common stock were initially reserved for issuance under the ESPP. The number of shares of our Class A common stock reserved for issuance automatically increases on February 1 of each calendar year, beginning on February 1, 2020 through February 1, 2029, by the lesser of (1) 1% of the total number of shares of our common stock (both Class A and Class B) outstanding on the last day of the fiscal year before the date of the automatic increase, and (2) 7,500,000 shares; provided that before the date of any such increase, our board of directors may determine that such increase will be less than the amount set forth in clauses (1) and (2).

Under our current ESPP, Class A common stock will be purchased for the accounts of employees participating in the ESPP at a price per share equal to the lesser of (1) 85% of the fair market value of a share of our Class A common stock on the first date of an offering or (2) 85% of the fair market value of a share of our Class A common stock on the date of purchase. No employee may purchase shares under the ESPP at a rate in excess of \$25,000 worth of our Class A common stock based on the fair market value per share of our Class A common stock at the beginning of an offering for each calendar year such purchase right is outstanding or 3,000 shares. The 2019 ESPP provides for, at maximum, 27 months offering periods with four offering dates, generally in June and December of each year. The first offering period began on April 18, 2019. During the fiscal years ended January 31, 2021 and 2020, 923,553 and 490,268 shares, respectively, of our Class A common stock were purchased under the ESPP.

As of January 31, 2021, unrecognized stock-based compensation expense related to the ESPP was \$31.9 million, which is expected to be recognized over a weighted-average period of 0.4 years.

We estimated the fair value of ESPP purchase rights using a Black-Scholes option-pricing model with the following assumptions:

	Year ended January 31,	
	2021	2020
Expected term (years)	0.5 - 2.1	0.5 - 2.1
Expected volatility	40.3% - 75.0%	40.3% - 56.2%
Risk-free interest rate	0.1% - 2.5%	1.5% - 2.5%
Expected dividend yield	—	—

Shares Reserved for Charitable Donations

During fiscal year 2020, our board of directors approved the issuance of 500,000 shares of Class A common stock for the sole purpose of being transferred to nonprofit organizations. As of January 31, 2021, 94,844 shares of Class A common stock have been transferred to a donor advised fund through an unaffiliated nonprofit organization. We recorded a non-cash charge of

\$23.3 million for the fair value of the donated shares, which was recorded in general and administrative expense in the consolidated statements of operations for the fiscal year ended January 31, 2021.

Stock-Based Compensation

The stock-based compensation expense by line item in the accompanying consolidated statements of operations is summarized as follows:

	Year Ended January 31,		
	2021	2020	2019
	(in thousands)		
Cost of revenue	\$ 34,960	\$ 7,860	\$ 1,119
Research and development	50,161	11,645	1,369
Sales and marketing	146,377	41,465	3,540
General and administrative	44,320	12,139	2,913
Total stock-based compensation expense	\$ 275,818	\$ 73,109	\$ 8,941

10. Income Taxes

The components of the net income before the provision for income taxes were as follows:

	Year Ended January 31,		
	2021	2020	2019
	(in thousands)		
Domestic	\$ 663,909	\$ 16,268	\$ (204)
Foreign	14,125	10,094	8,553
Total	\$ 678,034	\$ 26,362	\$ 8,349

The provision for income taxes was as follows:

	Year Ended January 31,		
	2021	2020	2019
	(in thousands)		
Current:			
Federal	\$ —	\$ —	\$ —
State	1,023	14	80
Foreign	3,933	2,226	685
Total current income tax expense	4,956	2,240	765
Deferred:			
Federal	689	—	—
State	248	—	—
Foreign	(175)	(1,183)	—
Total deferred income tax expense	762	(1,183)	—
Total provision for income taxes	\$ 5,718	\$ 1,057	\$ 765

The provision for income taxes differs from the amount computed by applying the statutory federal tax rate as follows:

	Year Ended January 31,		
	2021	2020	2019
	(in thousands)		
Tax at federal statutory rate	\$ 142,387	\$ 5,536	\$ 1,764
State taxes	636	14	67
Foreign rate differential	89	(2,096)	(1,627)
Stock-based compensation	(302,362)	(32,070)	1,662
Permanent items	2,228	1,009	809
Research and development credits	(3,170)	(2,808)	(289)
Tax uncertainties	(607)	1,019	515
Change in valuation allowance	165,869	30,932	(1,438)
Other	648	(479)	(698)
Total	<u>\$ 5,718</u>	<u>\$ 1,057</u>	<u>\$ 765</u>
Effective tax rate	0.8 %	4.0 %	9.2 %

Deferred income taxes result from differences in the recognition of amounts for tax and financial reporting purposes, as well as operating loss and tax credit carryforwards. Significant components of our deferred income tax assets as of January 31, 2021 and 2020 are as follows:

	As of January 31,	
	2021	2020
	(in thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$ 341,487	\$ 37,507
Research and development credit carryforwards	12,191	5,701
Stock-based compensation	37,255	4,145
Accruals and reserves	29,195	11,586
Deferred revenue	6,565	5,234
Operating lease liabilities	27,842	17,716
Total deferred tax assets	<u>454,535</u>	<u>81,889</u>
Valuation allowance	<u>(335,051)</u>	<u>(36,353)</u>
Total deferred tax assets net of valuation allowance	119,484	45,536
Deferred tax liabilities:		
Property and equipment and intangible assets	(17,229)	(6,744)
Deferred contract acquisition costs	(76,593)	(21,156)
Operating right-of-use assets	(25,550)	(16,453)
Total deferred tax liabilities	<u>(119,372)</u>	<u>(44,353)</u>
Net deferred tax assets	<u>\$ 112</u>	<u>\$ 1,183</u>

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, carryback potential if permitted under the tax law, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes. Management believes it is more likely than not that some deferred tax assets will not be realized. Accordingly, a valuation allowance has been recorded on U.S. and U.K. deferred tax assets as of January 31, 2021 and 2020. The valuation allowance increased \$298.7 million and \$35.5 million during the fiscal years ended January 31, 2021 and 2020, respectively, and was primarily attributable to net operating losses generated as a result of stock-based compensation windfall benefits. The valuation allowance decreased \$2.3 million during the fiscal year ended January 31, 2019 and was primarily attributable to deferred tax liabilities generated from the capitalization of commissions for GAAP purposes.

We intend to continue maintaining a full valuation allowance on our deferred tax assets in the U.S. and U.K. until there is sufficient evidence to support the reversal of all or some portion of these allowances. In our valuation allowance evaluation, we give more weight to evidence that can be objectively verified than to evidence that cannot be objectively verified. Our consideration of the evidence requires management to make a number of significant judgments, estimates, and assumptions about highly complex and inherently uncertain matters. Given our current earnings and anticipated future earnings, we believe that there is a reasonable possibility that in the foreseeable future, sufficient positive evidence may become available that results in a conclusion that a portion of the valuation allowance will no longer be needed. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability (pretax income adjusted for permanent differences) that we are able to actually achieve.

As of January 31, 2021, we had net operating loss carryforwards of approximately \$1,264.3 million for federal income tax purposes, a small portion of which will begin to expire in 2032 if unused. We had net operating loss carryforwards of approximately \$797.0 million for state income tax purposes, which will begin to expire in the year 2027 if unused. We also had certain foreign net operating loss carryforwards of \$34.1 million, which have an indefinite life.

As of January 31, 2021, we also had research and development credit carryforwards of approximately \$13.6 million for federal income tax and \$11.4 million for state income tax purposes. The federal research and development tax credit will begin to expire in 2036 if unused. State research and development tax credits carry forward indefinitely.

The federal and state net operating loss carryforwards may be subject to significant limitations under Section 382 and Section 383 of the Internal Revenue Code of 1986 and similar provisions under state law. The Tax Reform Act of 1986 contains provisions that limit the federal net operating loss carryforwards that may be used in any given year in the event of special occurrences, including significant ownership changes. We have completed a Section 382 review and determined that none of our operating losses will expire solely due to Section 382 limitation(s).

We indefinitely reinvest earnings from our foreign subsidiaries and therefore no deferred tax liability has been recognized on the basis difference created by such earnings. We have not provided foreign withholding taxes for any undistributed earnings of our foreign subsidiaries.

A reconciliation of the beginning and ending balance of total unrecognized tax benefits is as follows:

	Unrecognized Tax Benefits (in thousands)
Balance - January 31, 2018	\$ 1,976
Increases related to current year's tax positions	802
Balance - January 31, 2019	2,778
Increases related to current year's tax positions	5,328
Balance - January 31, 2020	8,106
Increases related to current year's tax positions	6,001
Increases related to prior year's tax positions	314
Current year acquisitions	885
Lapse of statute of limitations	(422)
Balance - January 31, 2021	<u>\$ 14,884</u>

Included in the balance of unrecognized tax benefits as of January 31, 2021, 2020, and 2019, are \$2.0 million, \$2.0 million, and \$1.0 million, respectively, of tax benefits that, if recognized, would affect the effective tax rate.

We recognize interest and penalties related to unrecognized tax benefits as income tax expense. During the fiscal year ended January 31, 2021, we recognized interest and penalties of \$0.1 million, and had a cumulative liability of \$0.2 million as of January 31, 2021. During the fiscal year ended January 31, 2020, we recognized interest and penalties of \$0.3 million, and had a cumulative liability of \$0.3 million as of January 31, 2020. During the fiscal year ended January 31, 2019, we recognized no interest and penalties.

We file income tax returns in the U.S. federal jurisdiction, various state jurisdictions, and various foreign jurisdictions. As of January 31, 2021, all of the years remain open to examination by the federal and state tax authorities, for three or four years from the tax year in which net operating losses or tax credits are utilized. We believe that an adequate provision has been made for any adjustments that may result from tax examinations. Although the timing of the resolution, settlement, and closure of audits is not certain, we do not believe it is reasonably possible that our unrecognized tax benefits will materially change in the next 12 months.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act was passed into law. On December 27, 2020, the Consolidated Appropriations Act (2021) was passed into law. Both amended portions of relevant tax law and did not have a significant impact on the provision for income taxes for the fiscal year ended January 31, 2021. We will continue to monitor future guidance regarding these acts and other similar stimulus measures to determine any future impacts.

11. Net Income Per Share Attributable to Common Stockholders

The following table sets forth the computation of basic and diluted net income per share attributable to common stockholders for the periods presented:

	Year Ended January 31,					
	2021		2020		2019	
	Class A	Class B	Class A	Class B	Class A	Class B
Numerator:	(in thousands, except share and per share data)					
Net income	\$ 432,968	\$ 239,348	\$ 5,450	\$ 19,855	\$ —	\$ 7,584
Less: undistributed earnings attributable to participating securities	—	(789)	—	(3,555)	—	(7,584)
Net income attributable to common stockholders, basic	\$ 432,968	\$ 238,559	\$ 5,450	\$ 16,300	\$ —	\$ 0
Reallocation of net income attributable to common stockholders	(14,321)	14,321	(439)	439	—	0
Net income attributable to common stockholders, diluted	\$ 418,647	\$ 252,880	\$ 5,011	\$ 16,739	\$ —	\$ 0
Denominator:						
Weighted-average shares used in computing net income per share attributable to common stockholders, basic	183,015,245	100,838,409	58,541,269	175,100,067	—	84,483,094
Weighted-average shares used in computing net income per share attributable to common stockholders, diluted	185,860,412	112,267,257	58,583,874	195,714,140	—	116,005,681
Net income per share attributable to common stockholders, basic	\$ 2.37	\$ 2.37	\$ 0.09	\$ 0.09	\$ —	\$ 0.00
Net income per share attributable to common stockholders, diluted	\$ 2.25	\$ 2.25	\$ 0.09	\$ 0.09	\$ —	\$ 0.00

The potential shares of common stock that were excluded from the computation of diluted net income per share attributable to common stockholders for the periods presented because including them would have been anti-dilutive are as follows:

	Year Ended January 31,					
	2021		2020		2019	
	Class A	Class B	Class A	Class B	Class A	Class B
Outstanding stock options	51,444	—	141,782	—	—	3,541,878
Unvested RSUs	98,941	—	606,971	—	—	—
Purchase rights committed under the ESPP	14,951	—	1,180,664	—	—	—
Total	165,336	—	1,929,417	—	—	3,541,878

The table above does not include 405,156 and 500,000 shares of issued Class A common stock held by us as of January 31, 2021 and 2020, respectively, that are reserved for the sole purpose of being transferred to nonprofit organizations.

In October 2018, we entered into a strategic partnership with Dropbox, Inc. (“Dropbox”), a global collaboration platform company, which involves the development of technology enabling integrated workflows for users between our platform and the Dropbox platform, as well as a strategic partnership with Atlassian, Inc. (“Atlassian”), a collaboration software company, which involves the development of technology enabling integrated workflows for users between our platform and Atlassian’s Jira Ops and Jira Service Desk products. As of January 31, 2019, we had issued unsecured three-year convertible promissory notes in the principal amounts of \$5.0 million and \$10.0 million to Dropbox and Atlassian, respectively, which accrued simple interest at 2.75% and 5.0% per annum, respectively. The convertible promissory notes are contingently convertible (convertible upon completion of an IPO or a qualified financing event), and the conditions for the convertible feature were not satisfied as of January 31, 2019. For fiscal year ended January 31, 2019, we have excluded these potential dilutive shares from the calculation of diluted net income per share attributable to common stockholders.

12. Selected Quarterly Financial Data (Unaudited)

Selected summarized quarterly financial information for the fiscal years 2021 and 2020 is as follows:

	Three Months Ended							
	January 31, 2021	October 31, 2020	July 31, 2020	April 30, 2020	January 31, 2020	October 31, 2019	July 31, 2019	April 30, 2019
	(in thousands)							
Revenue	\$ 882,485	\$ 777,196	\$ 663,520	\$ 328,167	\$ 188,251	\$ 166,593	\$ 145,826	\$ 121,988
Gross profit	\$ 615,201	\$ 518,469	\$ 471,249	\$ 224,460	\$ 155,704	\$ 135,748	\$ 117,926	\$ 97,884
Income (loss) from operations	\$ 256,117	\$ 192,242	\$ 188,104	\$ 23,385	\$ 10,553	\$ (1,679)	\$ 2,265	\$ 1,557
Net income attributable to common stockholders	\$ 260,393	\$ 198,440	\$ 185,742	\$ 27,036	\$ 15,313	\$ 2,207	\$ 5,521	\$ 198
Net income per share attributable to common stockholders:								
Basic	\$ 0.91	\$ 0.70	\$ 0.66	\$ 0.10	\$ 0.06	\$ 0.01	\$ 0.02	\$ 0.00
Diluted	\$ 0.87	\$ 0.66	\$ 0.63	\$ 0.09	\$ 0.05	\$ 0.01	\$ 0.02	\$ 0.00

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management has concluded that its internal control over financial reporting was effective as of January 31, 2021 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. GAAP.

The effectiveness of our internal control over financial reporting as of January 31, 2021 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included in Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) that occurred during the quarter ended January 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Disclosure Controls and Procedures

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

We maintain a Code of Business Conduct and Ethics that incorporates our code of ethics applicable to all employees, including all directors and executive officers. Our Code of Business Conduct and Ethics is published on our Investor Relations website at investors.zoom.us under “Corporate Governance.” We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendments to, or waiver from, a provision of our Code of Business Conduct and Ethics by posting such information on the website address and location specified above.

The remaining information required by this item is incorporated by reference to the definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after January 31, 2021.

Item 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after January 31, 2021.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to the definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after January 31, 2021.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to the definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after January 31, 2021.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to the definitive Proxy Statement for our 2021 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after January 31, 2021.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

(1) Consolidated Financial Statements:

Our Consolidated Financial Statements are listed in the “Index to Consolidated Financial Statements” under Part II, Item 8 of this Annual Report on Form 10-K.

(2) Financial Statement Schedules:

Schedule II: Valuation and Qualifying Accounts is filed as part of this Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes herein.

(3) Exhibits

The documents listed in the following Exhibit Index of this Annual Report on Form 10-K are incorporated by reference or are filed with this Annual Report on Form 10-K, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of Zoom Video Communications, Inc.	8-K	001-38865	3.1	April 23, 2019
3.2	Amended and Restated Bylaws of Zoom Video Communications, Inc.	S-1/A	333-230444	3.4	April 8, 2019
4.1	Form of Class A Common Stock Certificate	S-1/A	333-230444	4.1	April 8, 2019
4.2#	Third Amended and Restated Investors' Rights Agreement by and among the Registrant and certain of its stockholders, dated December 1, 2016.	S-1	333-230444	4.2	March 22, 2019
4.3	Description of Securities				
10.1#	Zoom Video Communications, Inc. Fourth Amended and Restated 2011 Global Share Plan, and forms of agreements thereunder.	S-1	333-230444	10.1	March 22, 2019
10.2#	Zoom Video Communications, Inc. 2019 Equity Incentive Plan and forms of agreements thereunder.	S-1/A	333-230444	10.2	April 8, 2019
10.3	Zoom Video Communications, Inc. 2019 Equity Incentive Plan Non-Employee Director Global Restricted Stock Unit Award Grant Notice, as amended	10-Q	001-38865	10.3	September 3, 2020
10.4	Zoom Video Communications, Inc. 2019 Equity Incentive Plan Global Restricted Stock Unit Award Grant Notice for Executive Officers, as amended	10-Q	001-38865	10.1	December 4, 2020
10.5#	Zoom Video Communications, Inc. 2019 Employee Stock Purchase Plan.	S-1/A	333-230444	10.3	April 8, 2019
10.6#	Form of Indemnification Agreement entered into by and between the Registrant and each director and executive officer.	S-1	333-230444	10.4	March 22, 2019
10.7#	Zoom Video Communications, Inc. Non-Employee Director Compensation Policy, as amended				
10.8#	Zoom Video Communications, Inc. 2019 Equity Incentive Plan Global RSU Award Gant Notice	10-Q	001-38865	10.2	September 13, 2019
10.9#	Zoom Video Communications, Inc. 2019 Equity Incentive Plan Non-Employee Director Global RSU Award Grant Notice	10-Q	001-38865	10.3	September 13, 2019
10.10#	Confirmatory Offer Letter by and between the Registrant and Eric S. Yuan, dated December 18, 2018.	S-1	333-230444	10.5	March 22, 2019
10.11#	Confirmatory Offer Letter by and between the Registrant and Aparna Bawa, dated December 18, 2018.	S-1	333-230444	10.6	March 22, 2019
10.12#	Confirmatory Offer Letter by and between the Registrant and Janine Pelosi, dated December 18, 2018.	S-1	333-230444	10.7	March 22, 2019
10.13#	Confirmatory Offer Letter by and between the Registrant and Kelly Steckelberg, dated December 18, 2018.	S-1	333-230444	10.8	March 22, 2019
10.14#	Offer Letter by and between the Registrant and Ryan Azus dated June 29, 2019.	10-Q	001-38865	10.4	September 13, 2019
10.15#	Offer Letter by and between the Registrant and Velchamy Sankarlingam dated May 19, 2020	10-Q	001-38865	10.1	September 3, 2020
10.16#	Director Offer Letter by and between Zoom Video Communications, Inc. and Lieut. General H.R. McMaster dated May 6, 2020	10-Q	001-38865	10.2	September 3, 2020
10.17	Director Offer Letter by and between Zoom Video Communications, Inc. and Janet Napolitano dated November 2, 2020				
10.18	Lease Agreement dated August 1, 2016, as amended, by and between the Registrant and KBSIII Almaden Financial Plaza, LLC.	S-1	333-230444	10.9	March 22, 2019
10.19	Fourth Amendment to Lease Agreement by and between the Registrant and KBSIII Almaden Financial Plaza, LLC.	10-Q	001-38865	10.5	September 13, 2019

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10.20	Fifth Amendment to Lease Agreement by and between Zoom Video Communications, Inc. and KBSIII Almaden Financial Plaza, LLC dated March 9, 2020.	10-Q	001-38865	10.1	June 5, 2020
10.21#	Zoom Video Communications, Inc. Officer Incentive Plan, as amended				
10.22	Common Stock Purchase Agreement by and among the Registrant, salesforce.com, inc. and Salesforce Ventures LLC, dated as of April 5, 2019.	S-1/A	333-230444	10.11	April 8, 2019
21.1	List of subsidiaries of the Registrant.				
23.1	Consent of KPMG LLP, independent registered public accounting firm.				
24.1	Power of Attorney (reference is made to the signature page hereto).				
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1†	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101.INS	XBRL Instance Document				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (formatted as inline XBRL)				

Indicates a management contract or compensatory plan or arrangement.

† The certifications attached as Exhibit 32.1 that accompany this Annual Report on Form 10-K are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

(b) Financial Statement Schedules**Schedule II: Valuation and Qualifying Accounts**

The table below details the activity of the accounts receivable allowances and deferred tax asset valuation allowance for the fiscal years ended January 31, 2021, 2020, and 2019:

	Balance at Beginning of Year	Additions	Write-offs or Deductions	Balance at End of Year
(in thousands)				
Year ended January 31, 2021				
Accounts receivable allowances	\$ 7,634	\$ 47,405	\$ (18,195)	\$ 36,844
Deferred tax asset valuation allowance	\$ 36,353	\$ 298,698	\$ —	\$ 335,051
Year ended January 31, 2020				
Accounts receivable allowances	\$ 2,071	\$ 8,583	\$ (3,020)	\$ 7,634
Deferred tax asset valuation allowance	\$ 877	\$ 35,476	\$ —	\$ 36,353
Year ended January 31, 2019				
Accounts receivable allowances	\$ 560	\$ 3,763	\$ (2,252)	\$ 2,071
Deferred tax asset valuation allowance	\$ 3,154	\$ —	\$ (2,277)	\$ 877

All other financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto included in this Form 10-K.

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

ZOOM VIDEO COMMUNICATIONS, INC.

Date: March 18, 2021

By: /s/ Eric S. Yuan
Eric S. Yuan
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 18, 2021

By: /s/ Kelly Steckelberg
Kelly Steckelberg
Chief Financial Officer
(Principal Financial Officer)

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Eric S. Yuan, Kelly Steckelberg, and Aparna Bawa, and each one of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in their name, place, and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>/s/ Eric S. Yuan</u> Eric S. Yuan	President, Chief Executive Officer and Director (<i>Principal Executive Officer</i>)	March 18, 2021
<u>/s/ Kelly Steckelberg</u> Kelly Steckelberg	Chief Financial Officer (<i>Principal Financial Officer</i>)	March 18, 2021
<u>/s/ Shane Crehan</u> Shane Crehan	Chief Accounting Officer (<i>Principal Accounting Officer</i>)	March 18, 2021
<u>/s/ Jonathan Chadwick</u> Jonathan Chadwick	Director	March 18, 2021
<u>/s/ Carl M. Eschenbach</u> Carl M. Eschenbach	Director	March 18, 2021
<u>/s/ Peter Gassner</u> Peter Gassner	Director	March 18, 2021
<u>/s/ Kimberly L. Hammonds</u> Kimberly L. Hammonds	Director	March 18, 2021
<u>/s/ Herbert Raymond McMaster</u> Herbert Raymond McMaster	Director	March 18, 2021
<u>/s/ Janet Napolitano</u> Janet Napolitano	Director	March 18, 2021
<u>/s/ Dan Scheinman</u> Dan Scheinman	Director	March 18, 2021
<u>/s/ Santiago Subotovsky</u> Santiago Subotovsky	Director	March 18, 2021
<u>/s/ Bart Swanson</u> Bart Swanson	Director	March 18, 2021

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

General

The following is a summary of the rights of our common and preferred stock and some of the provisions of our amended and restated certificate of incorporation, amended and restated bylaws, and relevant provisions of Delaware General Corporation Law. The descriptions herein are qualified in their entirety by our amended and restated certificate of incorporation and amended and restated bylaws, copies of which have been filed as exhibits to our Annual Report on Form 10-K, as well as the relevant provisions of Delaware General Corporation Law.

Our amended and restated certificate of incorporation provides for two classes of common stock: Class A common stock and Class B common stock, and it authorizes shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by our board of directors.

Our authorized capital stock consists of the following shares, all with a par value of \$0.001 per share, of which:

- 2,000,000,000 shares are designated as Class A common stock;
- 300,000,000 shares are designated as Class B common stock; and
- 200,000,000 shares are designated as preferred stock.

Class A and Class B Common Stock

All issued and outstanding shares of our Class A common stock and Class B common stock are duly authorized, validly issued, fully paid and non-assessable. All authorized but unissued shares of our Class A common stock and Class B common stock are available for issuance by our board of directors without any further stockholder action, except as required by the listing standards of The Nasdaq Stock Market. Our amended and restated certificate of incorporation provides that, except with respect to voting rights and conversion rights, the Class A common stock and Class B common stock are treated equally and identically.

Voting Rights

Holders of Class A common stock are entitled to one vote per share on all matters to be voted upon by the stockholders, and holders of Class B common stock are entitled to 10 votes per share on all matters to be voted upon by the stockholders. The holders of our Class A common stock and Class B common stock generally vote together as a single class on all matters submitted to a vote of our stockholders, unless otherwise required by Delaware law or our amended and restated certificate of incorporation. Delaware law would permit holders of Class A common stock to vote separately, as a single class, if we were to change the par value of the

Class A common stock or amend our certificate of incorporation to alter the powers, preferences or special rights of the common stock as a whole in a way that would adversely affect the holders of our Class A common stock.

In addition, Delaware law would permit holders of Class A common stock to vote separately, as a single class, if an amendment of our certificate of incorporation would adversely affect them by altering the powers, preferences, or special rights of the Class A common stock, but not the Class B common stock. As a result, in these limited instances, the holders of a majority of the Class A common stock could defeat any amendment to our certificate of incorporation. For example, if a proposed amendment of our certificate of incorporation provided for the Class A common stock to rank junior to the Class B common stock with respect to (i) any dividend or distribution, (ii) the distribution of proceeds were we to be acquired or (iii) any other right, Delaware law would require the vote of the Class A common stock. In this instance, the holders of a majority of Class A common stock could defeat that amendment to our certificate of incorporation.

Our amended and restated certificate of incorporation provides that the number of authorized shares of preferred stock, Class A common stock or Class B common stock, may be increased or decreased (but not below the number of shares of preferred stock, Class A common stock and Class B common stock then outstanding) by the affirmative vote of the holders of a majority of the outstanding voting power of all of our outstanding capital stock, voting together as a single class (i.e., without a separate class vote of the holders of either the Class A common stock or the Class B common stock). As a result, the holders of a majority of the outstanding Class B common stock, which is entitled to 10 votes per share, can approve an increase or decrease in the number of authorized shares of Class A common stock without a separate vote of the holders of Class A common stock. This could allow us to increase and issue additional shares of Class A common stock beyond what is currently authorized in our certificate of incorporation without the consent of the holders of our Class A common stock.

Our amended and restated certificate of incorporation does not provide for cumulative voting for the election of directors.

Dividend Rights

Holders of Class A common stock and Class B common stock are entitled to ratably receive dividends if, as and when declared from time to time by our board of directors at its own discretion out of funds legally available for that purpose, after payment of dividends required to be paid on outstanding preferred stock, if any. Under Delaware law, we can only pay dividends either out of “surplus” or out of the current or the immediately preceding year’s net profits. Surplus is defined as the excess, if any, at any given time, of the total assets of a corporation over its total liabilities and statutory capital. The value of a corporation’s assets can be measured in a number of ways and may not necessarily equal their book value. In addition, holders of our Class A common stock would be entitled to vote separately as a class on dividends and distributions if the holders of Class A common stock were treated adversely. As a result, if the holders of Class A common stock were treated adversely in any dividend or distribution, the holders of a majority of Class A common stock could defeat that dividend or distribution.

Right to Receive Liquidation Distributions

Upon our dissolution, liquidation or winding-up or a deemed liquidation, the assets legally available for distribution to our stockholders are distributable ratably among the holders of our Class A common stock and Class B common stock, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights and payment of liquidation preferences, if any, on any outstanding shares of preferred stock, unless a different treatment is approved by the affirmative vote of the holders of a majority of the outstanding shares of each class of common stock, including the Class A common stock, voting separately as a class. As a result, the holders of a majority of each class of common stock, including the Class A common stock, could defeat a proposed distribution of any assets on our liquidation, dissolution, or winding-up or deemed liquidation if that distribution were not to be shared equally, identically, and ratably. If a change of control transaction is not considered a deemed liquidation, such transaction shall require the approval of the affirmative vote of the holders of a majority of the outstanding shares of each class of common stock, including the Class A common stock, voting separately as a class.

Subdivisions and Combinations

If we subdivide or combine in any manner outstanding shares of Class A common stock or Class B common stock, the outstanding shares of the other class will be subdivided or combined in the same manner, unless different treatment of the shares of each such class is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A common stock and by the affirmative vote of the holders of a majority of the outstanding shares of Class B common stock, each voting separately as a class.

Conversion

Each share of our Class B common stock is convertible at any time at the option of the holder into one share of our Class A common stock. In addition, each share of our Class B common stock will convert automatically into one share of our Class A common stock upon any transfer, whether or not for value, except certain transfers to entities, to the extent the transferor retains sole dispositive power and exclusive voting control with respect to the shares of Class B common stock, and certain other transfers described in our amended and restated certificate of incorporation. All outstanding shares of our Class B common stock will convert into shares of our Class A common stock upon the earliest of (i) the date that is six months following the death or incapacity of Eric S. Yuan, (ii) the date that is six months following the date that Mr. Yuan ceases providing services to us or his employment is terminated by us for cause, (iii) the date specified by the holders of a majority of the then outstanding shares of Class B common stock, voting separately as a class and (iv) the 15-year anniversary of the closing of our initial public offering.

Other Matters

The Class A common stock and Class B common stock have no preemptive rights pursuant to the terms of our amended and restated certificate of incorporation and our amended and

restated bylaws. There are no redemption or sinking fund provisions applicable to the Class A common stock and Class B common stock. All outstanding shares of our Class A common stock are fully paid and non-assessable.

Preferred Stock

Our board of directors may, without further action by our stockholders, fix the rights, preferences, privileges and restrictions of up to an aggregate of 200,000,000 shares of preferred stock in one or more series and authorize their issuance. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of our common stock. The issuance of our preferred stock could adversely affect the voting power of holders of our common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change of control or other corporate action. No shares of preferred stock are outstanding.

Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

Some provisions of Delaware law, our amended and restated certificate of incorporation and our amended and restated bylaws contain provisions that could make the following transactions more difficult: an acquisition of us by means of a tender offer; an acquisition of us by means of a proxy contest or otherwise; or the removal of our incumbent officers and directors. It is possible that these provisions could make it more difficult to accomplish or could deter transactions that stockholders may otherwise consider to be in their best interest or in our best interests, including transactions which provide for payment of a premium over the market price for our shares.

These provisions, summarized below, are intended to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of the increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging these proposals because negotiation of these proposals could result in an improvement of their terms.

Dual Class Stock

As described above, our amended and restated certificate of incorporation provides for a dual class common stock structure, which provides our founders, current investors, executives and employees with significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets.

Stockholder Meetings

Our amended and restated bylaws provide that a special meeting of stockholders may be called only by our chairperson of the board, chief executive officer, or by a resolution adopted by a majority of our board of directors.

Requirements for Advance Notification of Stockholder Nominations and Proposals

Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals to be brought before a stockholder meeting and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors.

Elimination of Stockholder Action by Written Consent

Our amended and restated certificate of incorporation and amended and restated bylaws eliminate the right of stockholders to act by written consent without a meeting.

Staggered Board

Our board of directors is divided into three classes. The directors in each class serve for a three-year term, one class being elected each year by our stockholders. This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us because it generally makes it more difficult for stockholders to replace a majority of the directors.

Removal of Directors

Our amended and restated certificate of incorporation provides that no member of our board of directors may be removed from office by our stockholders except for cause and, in addition to any other vote required by law, upon the approval of not less than two-thirds of the total voting power of all of our outstanding voting stock then entitled to vote in the election of directors.

Stockholders Not Entitled to Cumulative Voting

Our amended and restated certificate of incorporation does not permit stockholders to cumulate their votes in the election of directors. Accordingly, the holders of a majority of the outstanding shares of our common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they choose, other than any directors that holders of our preferred stock may be entitled to elect.

Delaware Anti-Takeover Statute

We are subject to Section 203 of the Delaware General Corporation Law, which prohibits persons deemed to be “interested stockholders” from engaging in a “business combination” with a publicly held Delaware corporation for three years following the date these persons become

interested stockholders unless the business combination is, or the transaction in which the person became an interested stockholder was, approved in a prescribed manner or another prescribed exception applies. Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did own, 15% or more of a corporation’s voting stock. Generally, a “business combination” includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors.

Choice of Forum

Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative form, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of a fiduciary duty or other wrongdoing by any of our directors, officers or employees to us or our stockholders; (iii) any action asserting a claim against us or any of our directors or officers or other employees arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or bylaws; (iv) any action or proceeding to interpret, apply, enforce or determine the validity of our certificate of incorporation or bylaws; (v) any action or proceeding as to which the Delaware General Corporation Law confers jurisdiction to the Court of Chancery of the State of Delaware, or (vi) any action asserting a claim governed by the internal affairs doctrine. Our amended and restated certificate of incorporation further provides that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, subject to and contingent upon a final adjudication in the State of Delaware of the enforceability of such exclusive forum provision. Our amended and restated certificate of incorporation also provides that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock will be deemed to have notice of and to have consented to these choice of forum provisions. It is possible that a court of law could rule that either choice of forum provision to be contained in our amended and restated certificate of incorporation is inapplicable or unenforceable if it is challenged in a proceeding or otherwise.

Amendment of Charter Provisions

The amendment of any of the above provisions, except for the provision making it possible for our board of directors to issue preferred stock, would require approval by holders of at least two-thirds of the total voting power of all of our outstanding voting stock.

The provisions of Delaware law, our amended and restated certificate of incorporation and our amended and restated bylaws could have the effect of discouraging others from attempting hostile takeovers, and as a consequence, they may also inhibit temporary fluctuations in the market price of our Class A common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in the composition of our board and management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

Transfer Agent and Registrar

The transfer agent and registrar for our Class A common stock and Class B common stock is Computershare Trust Company, N.A. The transfer agent and registrar's address is 250 Royall Street, Canton, Massachusetts 02021.

Exchange Listing

Our Class A common stock is listed on The Nasdaq Global Select Market under the symbol "ZM."

Zoom Video Communications, Inc.**Non-Employee Director Compensation Policy**

Each member of the Board of Directors (the “**Board**”) who is not also serving as an employee of or consultant to Zoom Video Communications, Inc. (the “**Company**”) or any of its subsidiaries (each such member, an “**Eligible Director**”) will receive the compensation described in this Non-Employee Director Compensation Policy (this “**Policy**”) for his or her Board service. This Policy first became effective commencing as of May 1, 2019 (the “**Effective Date**”) and may be amended at any time in the sole discretion of the Board or the Compensation Committee of the Board. An Eligible Director may decline all or any portion of his or her compensation by giving notice to the Company prior to the date cash may be paid or equity awards are to be granted, as the case may be.

Annual Cash Compensation

Each Eligible Director will be eligible to receive the annual cash compensation amounts set forth below effective upon (i) such Eligible Director’s first election or appointment to the Board, in the case of an Eligible Director not serving on the Board on the Effective Date; (ii) the Effective Date, in the case of an Eligible Director serving on the Board on the Effective Date who holds an unvested Company equity award on the Effective Date; or (iii) November 1, 2020, in the case of an Eligible Director serving on the Board on the Effective Date who does not hold an unvested Company equity award on the Effective Date (such applicable date that an Eligible Director first becomes eligible to receive annual cash compensation under this Policy, the “**Eligibility Date**”).

If an Eligible Director’s Eligibility Date is other than the first day of a fiscal quarter of the Company, each annual retainer set forth below will be pro-rated based on days served in the applicable fiscal year following the Eligibility Date, with the pro-rated amount paid for the first fiscal quarter that includes the Eligibility Date and regular full quarterly payments thereafter; provided, however, that if the Eligible Director leaves service prior to the last day of a fiscal quarter, the fee for such fiscal quarter will be pro-rated. All annual cash fees are vested upon payment and are payable to such Eligible Directors (or their designee) in equal quarterly installments in arrears on the last day of each of the Company’s fiscal quarters in which the service occurred, beginning with service commencing as of the Effective Date.

1. Annual Board Service Retainer:

- a. All Eligible Directors: \$45,000
- b. Chairman of the Board Service Retainer (in addition to Eligible Director Service Retainer): \$20,000
- c. Lead Independent Director (in addition to Eligible Director Service Retainer): \$20,000

2. Annual Committee Chair Service Retainer (in addition to Committee Member Service Retainer):

- a. Chairman of the Audit Committee: \$12,500
- b. Chairman of the Compensation Committee: \$10,000
- c. Chairman of the Nominating and Corporate Governance Committee: \$5,000

3. Annual Committee Member Service Retainer:

- a. Member of the Audit Committee: \$12,500
- b. Member of the Compensation Committee: \$10,000
- c. Member of the Nominating and Corporate Governance Committee: \$5,000

Equity Compensation

The equity compensation set forth below will be granted under the Company's 2019 Equity Incentive Plan or any successor plan (the "**Plan**"). All equity compensation granted under this Policy will be in the form of Restricted Stock Units ("**RSUs**") (as defined in the Plan). All RSUs granted under this Policy will vest in installments as described below subject to the Eligible Director's Continuous Services (as defined in the Plan) through such vesting dates on the terms specified below; provided, however, that all RSUs granted under this Policy will accelerate and vest in full upon (i) the Eligible Director's death or Disability (as defined in the Plan) or (ii) a Change in Control (as defined in the Plan), subject in each case to the Eligible Director's Continuous Service through such date. The number of shares underlying each of the RSUs granted under this Policy will be determined by dividing the applicable grant value for such RSU by the 60-trading day trailing average closing stock price of the Company's Class A common stock on Nasdaq ending on and including the date that is seven calendar days prior to the grant date of such RSU, and rounding down to the nearest whole share.

1. Initial Grant: For each Eligible Director who is first elected or appointed to the Board following the Effective Date, on the date of such Eligible Director's initial election or appointment to the Board (or, if such date is not a market trading day, the first market trading day thereafter) (the "**Initial Grant Date**"), such Eligible Director will be automatically, and without further action by the Board or Compensation Committee of the Board, granted RSUs (the "**Initial Grant RSUs**"). The number of Initial Grant RSUs will be determined based on the applicable scheduled length of the term of the Eligible Director's initial election or appointment to the Board (the "**Initial Term**"). The Initial Grant RSUs will have a grant value that is equal to \$600,000 multiplied by the percentage obtained by dividing the total number of expected calendar days in the Initial Term by the total number of calendar days following the date of Eligible Director's initial election or appointment to the Board through and including the third anniversary of such election or appointment date.

The Initial Grant RSUs will vest in substantially equal quarterly installments measured from the Initial Grant Date over the applicable expected Initial Term (each a "**Vesting Date**"), provided that, if the annual meeting of the Company's stockholders (the "**Annual Meeting**") at which the scheduled Initial Term ends occurs prior to the last scheduled quarterly Vesting Date for the Initial Grant RSUs, the Initial Grant RSUs shall become fully vested as of the day immediately preceding such Annual Meeting. Vesting of the Initial Grant RSUs is subject in all cases to the Eligible Director's Continuous Service (as defined in the Plan) through each such applicable Vesting Date.

2. Interim Grant. For each Eligible Director serving on the Board who holds an unvested Company equity award on the Effective Date, on the date immediately following the date that each Company equity award that was outstanding on the Effective Date and held by such

Eligible Director becomes fully vested with respect to all shares subject to such equity award (the “**Final Vesting Date**”) (or, if such date immediately following the Final Vesting Date is not a market trading day, the first market trading day thereafter), such Eligible Director will be automatically, and without further action by the Board or Compensation Committee of the Board, granted RSUs (the “**Interim Grant RSUs**”) on such date (the “**Interim Grant Date**”). The number of Interim Grant RSUs will be determined based on the applicable scheduled remaining length of the term of the Eligible Director’s service on the Board following the Final Vesting Date (the “**Interim Term**”). The Interim Grant RSUs will have a grant value that is equal to \$600,000 multiplied by the percentage obtained by dividing the total number of expected calendar days in the Interim Term by the total number of calendar days following the Final Vesting Date through and including the third anniversary of the Final Vesting Date.

The Interim Grant RSUs will vest in substantially equal quarterly installments measured from the Interim Grant Date over the applicable expected Interim Term (each a “**Vesting Date**”), provided that, if the Annual Meeting at which the scheduled Interim Term ends occurs prior to the last scheduled quarterly Vesting Date for the Interim Grant RSUs, the Interim Grant RSUs shall become fully vested as of the day immediately preceding such Annual Meeting. Vesting of the Interim Grant RSUs is subject in all cases to the Eligible Director’s Continuous Service (as defined in the Plan) through each such applicable Vesting Date.

3. **Refresher Grants:** On the date of each Annual Meeting held after the Effective Date, each Eligible Director who: (i) is nominated to be re-elected to the Board to serve a three-year term at such Annual Meeting (the “**Re-Elected Term**”), (ii) continues to serve as a non-employee member of the Board following such Annual Meeting, and (iii) does not hold any outstanding Company equity award which remains unvested with respect to any shares subject to such equity award as of the date of such Annual Meeting will be automatically, and without further action by the Board or Compensation Committee of the Board, granted RSUs (the “**Refresher Grant**”) with a grant value of \$600,000.

The shares subject to each Refresher Grant will vest in substantially equal quarterly installments over the applicable expected Re-Elected Term (each a “**Vesting Date**”), provided that, if the Annual Meeting at which the scheduled Re-Elected Term ends occurs prior to the last scheduled quarterly Vesting Date for the Refresher Grant, the Refresher Grant shall become fully vested as of the day immediately preceding such Annual Meeting. Vesting of the Refresher Grant is subject in all cases to the Eligible Director’s Continuous Service (as defined in the Plan) through each such applicable vesting date.

Director Compensation Limit

Notwithstanding anything herein to the contrary, the cash compensation and equity compensation that each Eligible Director may receive under this Policy shall be subject to the limits set forth in Section 3(d) of the Plan.



November 2, 2020

Janet Napolitano
Via email:

Re: Zoom Video Communications, Inc. Board of Directors Dear Ms. Napolitano:

I am very pleased to invite you to join the Board of Directors (the “**Board**”) of Zoom Video Communications, Inc. (“**Zoom**” or the “**Company**”). We believe that you will be a great addition to the Board.

As a Board member, you will participate in regularly scheduled and special Board meetings, which are expected to occur periodically during the year, meet or otherwise periodically confer with Zoom executives on an active and regular basis as requested by the Chairman of the Board, assess strategic risk exposure, and provide assistance and advisory services to Zoom’s executive team with occasional meetings, reference calls and advice on an as-needed basis. So long as you are serving on the Board, Zoom will reimburse you for your reasonable out-of-pocket expenses incurred in attending meetings of the Board, so long as you provide Zoom with appropriate receipts or other relevant documentation. You would not be an employee of Zoom and would have no authority to obligate Zoom by contract or otherwise. You will not be eligible for any employee benefits, nor will Zoom make deductions from any amounts payable to you for taxes. Any taxes shall be solely your responsibility.

Your election to the Board is as a Class III director for an initial term ending on the date of the 2022 annual meeting of stockholders (the “**Annual Meeting**”).

You will be eligible to receive cash and equity compensation pursuant to Zoom’s Non-Employee Director Compensation Policy, as amended from time to time (the “**Policy**”). Under such Policy as currently in effect, as a member of the Board, you will receive an annual retainer of \$30,000. If you serve on any committees of the Board, you will receive an additional annual retainer. Any committees that you will be joining will be determined on a later date.

Subject to the terms and conditions of the Policy, you will also be eligible to receive a restricted stock unit grant upon your initial election to the Board and a restricted stock unit grant on the date of the Annual Meeting, assuming you are re-elected to serve on the Board at such time.

In your capacity as a director of Zoom, you will be expected not to use or disclose any confidential information, including, but not limited to, trade secrets of any former employer or other person or entity to whom you have an obligation of confidentiality. Rather, you will be expected to use only information that is generally known and used by persons with training and experience comparable to your own, that is common knowledge in the industry or otherwise legally in the public domain, or that is otherwise provided by Zoom. You acknowledge that as a result of your service as a director you will obtain confidential information relating to or provided by Zoom and its affiliates. During and after your service with Zoom, you will not use for your benefit or disclose confidential information, knowledge or data relating to or provided by Zoom and its affiliates. You will be entitled to indemnification for your services as a Board member in accordance with Zoom’s standard form of indemnification agreement, which is attached to this letter, and Zoom’s charter documents.

This letter, along with the indemnification agreement and restricted stock unit documentation referred to herein, constitutes the entire agreement between you and Zoom. This agreement supersedes

any other agreements or promises made to you by anyone, whether oral or written, and it may only be modified in a writing signed by a duly authorized officer of Zoom.

To accept this offer, please sign and return one copy of this letter to us by November 2, 2020.

Ms. Napolitano, we believe you will be a tremendous addition to the Board and I am excited to work with you.

Sincerely,

Zoom Video Communications, Inc.

/S/ Eric Yuan
Eric Yuan, Chairman & CEO

Accepted and Agreed:

/S/ Janet Napolitano
Janet Napolitano

Date: Oct. 31, 2020

Zoom Video Communications, Inc. Officer Incentive Plan

1. Purpose

The Zoom Video Communications, Inc. Officer Incentive Plan (the “**Plan**”) is designed to provide incentives to participating employees to make important contributions to the success of Zoom Video Communications, Inc. (the “**Company**”) and reward such employees for outstanding performance. The Plan is also intended to enhance the ability of the Company to attract and retain highly talented individuals.

2. Administration

The Plan will be administered by the Compensation Committee (the “**Plan Administrator**”) of the Board of Directors (the “**Board**”) of the Company. The Plan Administrator will have the sole discretion and authority to administer and interpret the Plan, and the decisions of the Plan Administrator will in every case be final and binding on all persons having an interest in the Plan.

3. Eligibility

(a) Participation

Each employee of the Company who (i) is an “officer” of the Company (within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, and Rule 16a-1 thereunder); and (ii) has a written offer letter or other written agreement with the Company that provides for such employee’s Target Award (as defined in Section 4 below) and eligibility in the Plan or has a written agreement with the Company that provides that such employee is eligible to participate in the Company’s Sales Compensation Plan, is eligible to participate in the Plan and shall be considered a “**Participant**” in the Plan. Unless otherwise specified by the Plan Administrator or expressly provided in a written agreement between a Participant and the Company, an individual who commences employment with the Company during an applicable performance period may become a Participant for such performance period, commencing on the date such individual commences employment with the Company (provided such individual meets all other eligibility criteria for participation in the Plan), and will receive a pro-rated Target Award (as defined below) for such initial performance period.

(b) Awards

Each Participant in a performance period will be granted an award of a contingent right to a future payment under the Plan (an “**Award**”) for such performance period, which will be paid contingent upon achievement of applicable performance goals established by the Plan Administrator for the applicable performance period and earned upon satisfaction of all applicable conditions for earning such Awards.

(c) Award Payments

In order to be eligible to receive payment of an Award, unless otherwise expressly provided by the Plan Administrator or required by applicable law, a Participant must meet the following criteria: (A) continue to be employed with the Company from the date his or her participation in the Plan commences for the applicable performance period through the date the Award is paid; and (B) comply with any rules of the Plan established by the Plan Administrator. If a Participant ceases to be an Officer during a performance period but continues to be an employee through the date the Award is paid and otherwise is eligible to receive payment of an Award, such individual’s Award may be adjusted as determined appropriate by the Plan Administrator. There is no guarantee for any payment of an Award under the Plan. Awards are paid as advances and not earned until no

longer subject to recoupment in accordance with the Clawback Provisions described in Section 6(h) below, unless prohibited by applicable law.

4. Method for Establishing and Determining Awards

(a) Establishment of Target Awards

For each performance period, each Participant shall have a target award opportunity under the Plan (“**Target Award**”), expressed in such Participant’s offer letter with the Company or otherwise in writing and approved by the Plan Administrator, as a percentage of such Participant’s Base Salary earned during such performance period, as a set dollar amount or in such other form as specified in writing and approved by the Plan Administrator. The Plan Administrator is not obligated to treat all Plan Participants similarly. For purposes of the Plan, unless otherwise determined by the Plan Administrator, “**Base Salary**” for a Participant means the total amount of base salary or base wages earned by such Participant during the applicable performance period while such individual is a Participant. Base Salary does not include any bonuses, commissions or other incentive compensation, amounts received or otherwise recognized in connection with equity awards, expense reimbursements, relocation payments, overtime or shift differential payments, contributions made by the Company under any employee benefit plan, the value of any employee benefits or perquisites paid for by the Company, or any other similar items of compensation. Base Salary will be determined before any deductions for taxes or benefits and deferrals of compensation pursuant to any Company-sponsored plan.

(b) Establishment of Performance Periods

The Plan Administrator will establish the applicable performance periods during which actual performance will be measured against the performance goals established by the Plan Administrator to determine the Participant’s potential Award. Performance periods will generally be established by the Plan Administrator in reference to the Company’s fiscal year and may consist of a single fiscal year, multiple fiscal years, or one or more portions of a fiscal year.

(c) Establishment of Performance Goals

With respect to each performance period, the Plan Administrator will establish the following for each Participant: (i) one or more performance goals (which may be corporate performance goals and/or individual performance goals) and (ii) the relative weights, if any, of such performance goals and (iii) such other terms and conditions of the Award, if any, the Plan Administrator determines appropriate in its discretion (and in accordance with the terms of the Plan). The Plan Administrator will make such determinations under this Section 5(c) at the times and in the manner determined appropriate in its sole discretion and is not obligated to treat all Plan Participants similarly.

(d) Evaluation of Performance Results

Following the end of each performance period, the Plan Administrator will determine whether (and to what extent) the performance goals established for such performance period have been achieved.

(e) Determination of Actual Awards

For each performance period, the Plan Administrator will determine the amount of any actual Award for each Participant (which may be below, at or above the applicable Target Award) based on (i) the extent to which the performance goals established for such performance period have been achieved (and any relative weighting of such performance goals), (ii) such Participant’s Target Award, and (iii) if and the extent to which any and all other conditions for a Participant to earn and receive an Award have been met. Notwithstanding the foregoing, in determining the amount of any actual Award for any Participant, the Plan Administrator will have the

discretion to reduce the amount of any actual Award below the amount calculated under the terms of the Plan, including to zero, or increase the amount of any actual Award above the amount calculated under the terms of the Plan. In making such determination the Plan Administrator may take into consideration such other factors as it determines appropriate, in its sole discretion, including the Participant's individual performance. Awards will additionally be subject to any maximum payout limitation approved by the Plan Administrator for the applicable performance period.

Unless otherwise determined by the Plan Administrator or required by applicable law: (i) any Participant who switches from full-time to part-time employment during the performance period will have his or her actual Award reduced on a pro-rata basis based upon the applicable percentage of full-time equivalent employment that was in effect on an aggregate basis during the performance period and (ii) no adjustment will be made to the determined amount of an actual Award for any Participant due to any reduction in the percentage of full-time equivalent employment of a Participant that occurs after expiration of the performance period and prior to determination of the actual Award.

Unless prohibited by applicable law or otherwise determined by the Plan Administrator: (i) any Participant who is absent due to an approved leave of absence during the performance period, and who otherwise is eligible to receive and earns an actual Award for such performance period, will have his or her actual Award reduced on a pro-rata basis based upon the applicable period of active employment during the performance period and (ii) no adjustment will be made to the determined amount of an actual Award for any Participant due to any leave of absence that commences after expiration of the performance period and prior to determination of the actual Award.

5. Payment of Awards

Following, and subject to, the Plan Administrator's determination of actual Awards for a performance period, the Plan Administrator will approve the payment of Awards for such performance period, subject to satisfaction of any continued services or additional conditions established by the Plan Administrator to receive the Award. Payment of Awards under the Plan will be made as soon as practicable after such approval or satisfaction of such conditions, as applicable. However, Awards are not earned until no longer subject to recovery pursuant to the Clawback Provisions described in Section 6(h) below, unless prohibited by applicable law. As a result, the Company pays Awards in advance of the Participant's earning of the Award, and such advances are subject to recovery pursuant to the Clawback Provisions described in Section 6(h) below.

All Awards made under the Plan will be paid in the form of cash or, if approved by the Board or the Committee, an equity award under the Company's 2019 Equity Incentive Plan (or any successor thereto), as determined by the Plan Administrator in its sole discretion. The terms and conditions of any such equity award will be determined by the Plan Administrator in its sole discretion.

6. Miscellaneous

(a) Withholding of Compensation. The Company will deduct and withhold from any amounts payable to Participants under the Plan any amounts required to be deducted and withheld by the Company under the provisions of any applicable federal, state, local or foreign statute, law, regulation, ordinance or order. The Company reserves the right to require a Participant to satisfy such deduction and withholding obligation in such manner as specified by the Company under applicable law, in the event that amounts payable to Participants under the Plan are not paid in the form of cash.

(b) Plan Funding. The Plan will be unfunded. Nothing contained in the Plan will be deemed to require the Company to deposit, invest or set aside amounts for the payment of any Awards under the Plan.

(c) **Amendment or Termination of the Plan.** The Plan may be amended or terminated at any time by the Compensation Committee or the Board.

(d) **No Guarantee of Continued Service.** The Plan will not confer any rights upon an employee to remain in service with the Company or any affiliate of the Company for any specific duration or interfere with or otherwise restrict in any way the rights of the Company or any affiliate of the Company to terminate an employee's service with the Company (or affiliate, if applicable) for any reason, with or without cause or advance notice.

(e) **No Assignment or Transfer.** None of the rights, benefits, obligations or duties under the Plan may be assigned or transferred by any individual employee or Participant. Any purported assignment or transfer by any employee or Participant will be void. Participation in the Plan does not give any individual any ownership, security, or other rights in any assets of the Company.

(f) **Validity.** In the event any provision of the Plan is held invalid, void, or unenforceable, the same will not affect, in any respect whatsoever, the validity of any other provision of the Plan.

(g) **Governing Documents.** Each Award under the Plan shall be governed by the provisions of the Plan as set forth herein. This Plan contains the entire agreement between the Company and each Participant on this subject, and supersedes all prior bonus compensation plans or programs of the Company and all other previous oral or written statements regarding any such bonus compensation programs or plans. If the Participant receives an Award under the Company's Sales Compensation Plan, such Award and the written terms of such Sales Compensation Plan, shall be considered granted under and subject to the terms of this Plan.

(h) **Clawback/Recovery.** All Awards and payouts under the Plan will be subject to recoupment in accordance with the following provisions, as applicable (the "**Clawback Provisions**"): (i) the Zoom Video Communications, Inc. Incentive Compensation Recoupment Policy, (ii) any clawback policy that the Company (x) is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law and (y) otherwise voluntarily adopts, to the extent applicable and permissible under applicable law; and (iii) such other clawback, recovery or recoupment provisions set forth in an individual written agreement between the Company and the Participant, including the Company's Sales Compensation Plan, if applicable to such Participant. No recovery of compensation under such a Clawback Provision will be an event giving rise to a right to resign for "good reason" or "constructive termination" (or similar term) under any agreement with the Company.

(i) **Recovery of Mistaken Payments:** On occasion or by mistake, the Company may overpay or make incorrect payments of Awards. For these situations, to the extent permitted by applicable law, the Company reserves the right to offset or recover such mistaken payment amounts from any future payments of compensation to the Participant. The Participant authorizes the Company to reduce from any amounts owed to the Participant by the Company (including Base Salary, expense reimbursements, other bonuses or accrued vacation pay) such mistaken payment amounts and, to the extent the mistaken payment amounts are not repaid to the Company from such reduction, then the unpaid balance becomes a debt the Participant owes to the Company.

(j) **Governing Law.** The rights and obligations of any employee under the Plan will be governed by and interpreted, construed and enforced in accordance with the laws of the State of California without regard to its or any other jurisdiction's conflicts of laws principles.

(k) Section 409A. All Plan payments are intended to satisfy the requirements for the “short-term deferral” exemption from application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4) and any ambiguities herein shall be interpreted accordingly.

List of subsidiaries of the Registrant

Name of Subsidiary	Jurisdiction of Organization
Zoom Voice Communications, Inc.	United States of America
ZVC UK LTD	United Kingdom
ZVC Australia PTY LTD	Australia
ZVC Netherlands B.V.	Netherlands
ZVC Japan KK	Japan
Zoom Video Communications (Suzhou) Inc.	China
Saasbee Inc. (Hefei) Ltd.	China
SaasBee Software (Hangzhou) Co., Ltd.	China
ZVC France SAS	France
ZVC India PVT LTD	India
ZVC Canada LTD	Canada
Zoom Video Communications Hong Kong LTD	Hong Kong
Zoom Video Communications (Shanghai) Co., Ltd.	China
ZVC Singapore Pte. Ltd.	Singapore
ZVC Germany GmbH	Germany
Keybase LLC	United States of America
Zoom Video Communications (Shanghai) Co., Ltd.	China

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Zoom Video Communications, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-237348 and 333-230997) on Form S-8 and registration statement (No. 333-252035) on Form S-3 of Zoom Video Communications, Inc. of our report dated March 18, 2021, with respect to the consolidated balance sheets of Zoom Video Communications, Inc. and subsidiaries (the Company) as of January 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income, convertible preferred stock and stockholders' (deficit) equity, and cash flows for each of the years in the three-year period ended January 31, 2021, and the related notes and financial statement schedule II: valuation and qualifying accounts (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of January 31, 2021, which report appears in the January 31, 2021 annual report on Form 10-K of Zoom Video Communications, Inc.

Our report dated March 18, 2021 refers to a change in the Company's method of accounting for leases as of February 1, 2019 due to the adoption of a new accounting standard.

/s/ KPMG LLP

Santa Clara, California
March 18, 2021

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

I, Eric S. Yuan, certify that:

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

Date: March 18, 2021

ZOOM VIDEO COMMUNICATIONS, INC.

By: /s/ Eric S. Yuan

Eric S. Yuan

President and Chief Executive Officer

(Principal Executive Officer)

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

I, Kelly Steckelberg, certify that:

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

ZOOM VIDEO COMMUNICATIONS, INC.

By: /s/ Kelly Steckelberg
Kelly Steckelberg
Chief Financial Officer
(Principal Financial Officer)

Date: March 18, 2021

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Eric S. Yuan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Zoom Video Communications, Inc. for the fiscal year ended January 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Zoom Video Communications, Inc.

ZOOM VIDEO COMMUNICATIONS, INC.

Date: March 18, 2021

By: /s/ Eric S. Yuan
Eric S. Yuan
President and Chief Executive Officer
(Principal Executive Officer)

I, Kelly Steckelberg, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Zoom Video Communications, Inc. for the fiscal year ended January 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Zoom Video Communications, Inc.

ZOOM VIDEO COMMUNICATIONS, INC.

Date: March 18, 2021

By: /s/ Kelly Steckelberg
Kelly Steckelberg
Chief Financial Officer
(Principal Financial Officer)

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Zoom Video Communications, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.