

ASC 606 Investor Deck



zendesk



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**ADOPTION
BACKGROUND**

Adoption date

1/1/18

Full retrospective adoption

(FY16 and FY17 restated)

Revenue Impact

- Minimal impact
- Substantially all of our revenue is from subscription services
- Revenue recognition for subscription services is largely unchanged under ASC 606

Margin Impact

- Capitalization of deferred commissions and related overhead results in ~1-2% margin benefit

Revenue Impact - Annual

Total Revenue (\$MM)



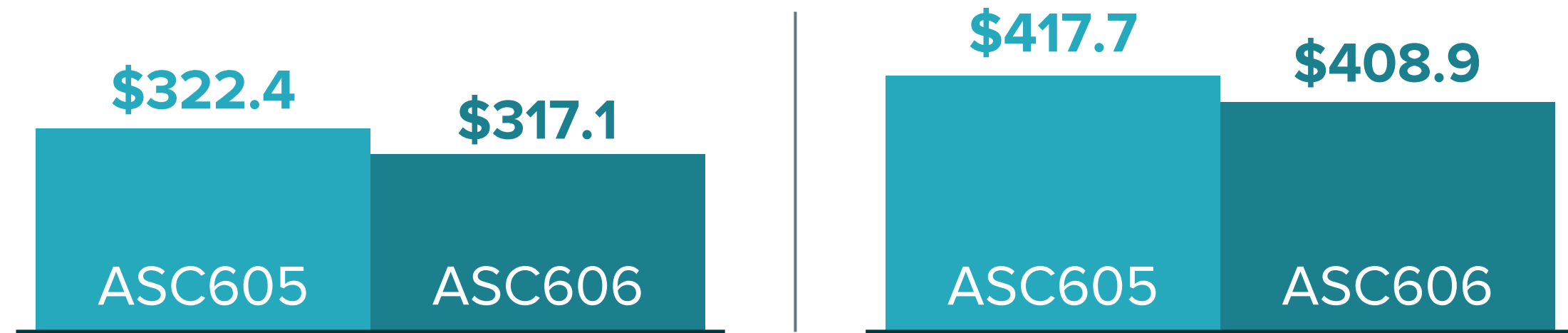
Revenue Impact

\$000s	FY16	Q1'17	Q2'17	Q3'17	Q4'17	FY17
<u>REVENUE</u>						
ASC 605 - Reported	311,999	93,007	101,273	112,786	123,426	430,492
ASC 606 - Restated	312,844	93,888	102,096	112,265	121,916	430,165
Impact	845	881	823	(521)	(1,510)	(327)



GAAP Margin Impact - Annual

GAAP Operating Expenses (\$MM)



GAAP Operating Margin (%)



FY2016

FY2017



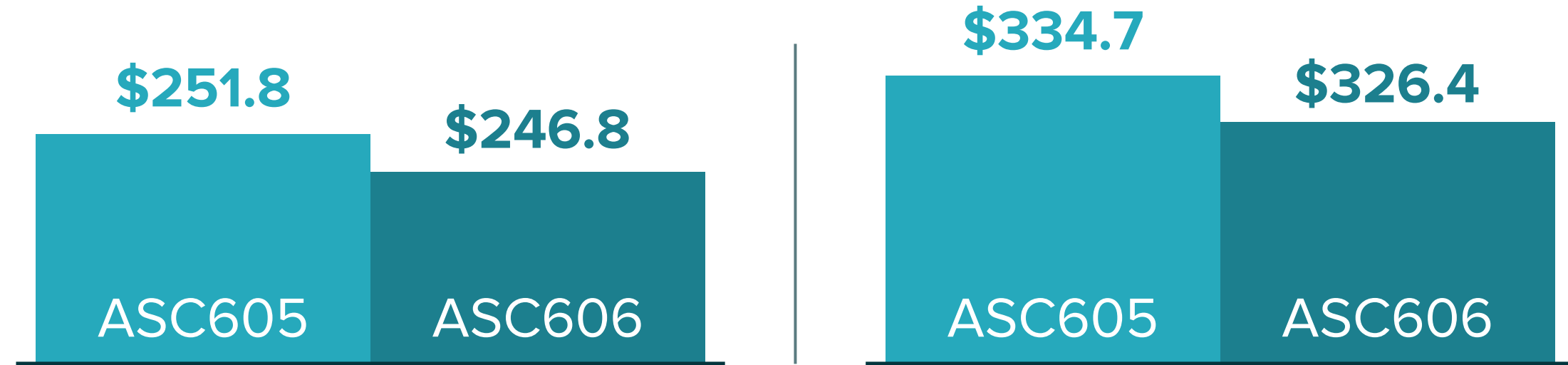
GAAP Margin Impact

\$000s	FY16	Q1'17	Q2'17	Q3'17	Q4'17	FY17
<u>GAAP Operating Loss</u>						
ASC 605 - Reported						
GAAP Operating Expense	322,425	92,074	101,114	107,534	116,991	417,713
GAAP Operating Margin \$	(104,326)	(27,174)	(30,504)	(28,441)	(28,523)	(114,643)
GAAP Operating Margin %	-33.4%	-29.2%	-30.1%	-25.2%	-23.1%	-26.6%
ASC 606 - Restated						
GAAP Operating Expense	317,091	91,042	98,898	105,139	113,810	408,889
GAAP Operating Margin \$	(98,147)	(25,261)	(27,465)	(26,567)	(26,852)	(106,146)
GAAP Operating Margin %	-31.4%	-26.9%	-26.9%	-23.7%	-22.0%	-24.7%
Impact						
GAAP Operating Expense	(5,334)	(1,032)	(2,216)	(2,395)	(3,181)	(8,824)
GAAP Operating Margin \$	6,179	1,913	3,039	1,874	1,671	8,497
GAAP Operating Margin %	2.0%	2.3%	3.2%	1.5%	1.1%	1.9%



Non-GAAP Margin Impact - Annual

Non-GAAP Operating Expenses (\$MM)



Non-GAAP Operating Margin (%)



FY2016

FY2017



Non-GAAP Margin Impact

\$000s	FY16	Q1'17	Q2'17	Q3'17	Q4'17	FY17
<u>Non-GAAP Operating Loss</u>						
ASC 605 - Reported						
Non-GAAP Operating Expense	251,786	73,678	80,453	86,190	94,409	334,731
Non-GAAP Operating Margin \$	(21,076)	(5,245)	(6,187)	(3,264)	(2,411)	(17,108)
Non-GAAP Operating Margin %	-6.8%	-5.6%	-6.1%	-2.9%	-2.0%	-4.0%
ASC 606 - Restated						
Non-GAAP Operating Expense	246,802	72,755	78,366	83,938	91,344	326,404
Non-GAAP Operating Margin \$	(15,247)	(3,441)	(3,277)	(1,533)	(856)	(9,108)
Non-GAAP Operating Margin %	-4.9%	-3.7%	-3.2%	-1.4%	-0.7%	-2.1%
Impact						
Non-GAAP Operating Expense	(4,984)	(923)	(2,087)	(2,252)	(3,065)	(8,327)
Non-GAAP Operating Margin \$	5,829	1,804	2,910	1,731	1,555	8,000
Non-GAAP Operating Margin %	1.9%	1.9%	2.9%	1.5%	1.3%	1.9%



Selected Balance Sheet Impact

\$000s	FY16				FY17		
	ASC 605	ASC 606	Pre-FY16 Impact	FY16 Impact	ASC 605	ASC 606	Impact
<u>Assets</u>							
Deferred costs	0	11,285	6,077	5,208	0	15,771	15,771
Deferred costs, noncurrent	0	11,057	2,809	8,248	0	15,395	15,395
Total	0	22,342	8,886	13,456	0	31,166	31,166
<u>Liabilities</u>							
Deferred revenue	124,533	122,829	118	(1,822)	175,737	174,360	(1,377)



No Cash Flow Impact

Operating Cash Flow (\$MM)



Financial Statements with 606 Adjustments

Consolidated Balance Sheets – FY17 Quarterly

Condensed Consolidated Balance Sheets (In thousands; unaudited)

	December 31,		September 30,		June 30,		March 31,		December 31,	
	2017 (Original)	2017 (Adjusted for 606)	2017 (Original)	2017 (Adjusted for 606)	2017 (Original)	2017 (Adjusted for 606)	2017 (Original)	2017 (Adjusted for 606)	2016 (Original)	2016 (Adjusted for 606)
Assets										
Current assets:										
Cash and cash equivalents	\$ 109,370	\$ 109,370	\$ 92,603	\$ 92,603	\$ 102,775	\$ 102,775	\$ 109,258	\$ 109,258	\$ 93,677	\$ 93,677
Marketable securities	137,576	137,576	133,959	133,959	137,489	137,489	138,440	138,440	131,190	131,190
Accounts receivable, net	57,096	57,096	51,465	51,465	41,311	41,311	39,105	39,105	37,343	37,343
Deferred costs	—	15,771	—	14,350	—	13,148	—	11,998	—	11,285
Prepaid expenses and other current assets	24,165	24,165	24,318	24,318	21,141	21,141	17,982	17,982	17,608	17,608
Total current assets	328,207	343,978	302,345	316,695	302,716	315,864	304,785	316,783	279,818	291,103
Marketable securities, noncurrent	97,447	97,447	90,263	90,263	68,502	68,502	68,320	68,320	75,168	75,168
Property and equipment, net	59,157	59,157	59,600	59,600	61,753	61,753	60,842	60,842	62,731	62,731
Deferred costs, noncurrent	—	15,395	—	13,635	—	12,442	—	11,376	—	11,057
Goodwill and intangible assets, net	67,034	67,034	67,779	67,779	68,762	68,762	52,699	52,699	53,296	53,296
Other assets	8,359	8,359	9,350	9,350	7,909	7,909	4,382	4,382	4,272	4,272
Total assets	\$ 560,204	\$ 591,370	\$ 529,337	\$ 557,322	\$ 509,642	\$ 535,232	\$ 491,028	\$ 514,402	\$ 475,285	\$ 497,627
Liabilities and stockholders' equity										
Current liabilities:										
Accounts payable	\$ 5,307	\$ 5,307	\$ 11,212	\$ 11,212	\$ 8,161	\$ 8,161	\$ 5,890	\$ 5,890	\$ 4,555	\$ 4,555
Accrued liabilities	21,876	21,876	21,588	21,588	19,935	19,935	18,448	18,448	19,106	19,106
Accrued compensation and related benefits	29,017	29,017	26,325	26,325	21,982	21,982	21,664	21,664	20,281	20,281
Deferred revenue	174,524	173,147	154,163	151,276	141,345	137,937	130,129	127,544	123,276	121,572
Total current liabilities	230,724	229,347	213,288	210,401	191,423	188,015	176,131	173,546	167,218	165,514
Deferred revenue, noncurrent	1,213	1,213	1,727	1,727	1,773	1,773	1,989	1,989	1,257	1,257
Other liabilities	6,626	6,626	8,152	8,152	8,477	8,477	7,511	7,511	7,382	7,382
Total liabilities	238,563	237,186	223,167	220,280	201,673	198,265	185,631	183,046	175,857	174,153
Stockholders' equity:										
Preferred stock	—	—	—	—	—	—	—	—	—	—
Common stock	1,031	1,031	1,010	1,010	1,007	1,007	991	991	971	971
Additional paid-in capital	753,568	753,568	711,301	711,301	686,336	686,336	655,792	655,792	624,026	624,026
Accumulated other comprehensive loss	(2,372)	(2,372)	(2,205)	(2,205)	(2,474)	(2,474)	(3,792)	(3,792)	(5,197)	(5,197)
Accumulated deficit	(430,586)	(398,043)	(403,936)	(373,064)	(376,248)	(347,250)	(346,942)	(320,983)	(319,720)	(295,674)
Treasury stock, at cost	—	—	—	—	(652)	(652)	(652)	(652)	(652)	(652)
Total stockholders' equity	321,641	354,184	306,170	337,042	307,969	336,967	305,397	331,356	299,428	323,474
Total liabilities and stockholders' equity	\$ 560,204	\$ 591,370	\$ 529,337	\$ 557,322	\$ 509,642	\$ 535,232	\$ 491,028	\$ 514,402	\$ 475,285	\$ 497,627



Consolidated Statements of Operations – FY17 & FY16

Condensed Consolidated Statements of Operations

(In thousands, except per share data; unaudited)

	Year Ended December 31,		Year Ended December 31,	
	2017 (Original)	2017 (Adjusted for 606)	2016 (Original)	2016 (Adjusted for 606)
Revenue	\$ 430,492	\$ 430,165	\$ 311,999	\$ 312,844
Cost of revenue	127,422	127,422	93,900	93,900
Gross profit	303,070	302,743	218,099	218,944
Operating expenses				
Research and development	115,291	115,291	91,067	91,067
Sales and marketing	220,742	211,918	166,987	161,653
General and administrative	81,680	81,680	64,371	64,371
Total operating expenses	417,713	408,889	322,425	317,091
Operating loss	(114,643)	(106,146)	(104,326)	(98,147)
Other income, net	2,487	2,487	1,520	1,520
Loss before provision for income taxes	(112,156)	(103,659)	(102,806)	(96,627)
Provision for (benefit from) income taxes	(1,518)	(1,518)	993	993
Net loss	(110,638)	(102,141)	(103,799)	(97,620)
Net loss per share, basic and diluted	\$ (1.11)	\$ (1.02)	\$ (1.11)	\$ (1.05)
Weighted-average shares used to compute net loss per share, basic and diluted	99,918	99,918	93,161	93,161



Consolidated Statements of Operations – FY17 Quarterly

Condensed Consolidated Statements of Operations

(In thousands, except per share data; unaudited)

	Three Months Ended December 31,		Three Months Ended September 30,		Three Months Ended June 30,		Three Months Ended March 31,	
	2017 (Original)	2017 (Adjusted for 606)	2017 (Original)	2017 (Adjusted for 606)	2017 (Original)	2017 (Adjusted for 606)	2017 (Original)	2017 (Adjusted for 606)
Revenue	\$ 123,426	\$ 121,916	\$ 112,786	\$ 112,265	\$ 101,273	\$ 102,096	\$ 93,007	\$ 93,888
Cost of revenue	34,958	34,958	33,693	33,693	30,663	30,663	28,107	28,107
Gross profit	88,468	86,958	79,093	78,572	70,610	71,433	64,900	65,781
Operating expenses								
Research and development	30,779	30,779	29,358	29,358	28,698	28,698	26,456	26,456
Sales and marketing	64,035	60,854	56,778	54,383	52,628	50,412	47,301	46,269
General and administrative	22,177	22,177	21,398	21,398	19,788	19,788	18,317	18,317
Total operating expenses	116,991	113,810	107,534	105,139	101,114	98,898	92,074	91,042
Operating loss	(28,523)	(26,852)	(28,441)	(26,567)	(30,504)	(27,465)	(27,174)	(25,261)
Other income, net	1,142	1,142	619	619	508	508	218	218
Loss before provision for income taxes	(27,381)	(25,710)	(27,822)	(25,948)	(29,996)	(26,957)	(26,956)	(25,043)
Provision for (benefit from) income taxes	(732)	(732)	(133)	(133)	(690)	(690)	38	38
Net loss	(26,649)	(24,978)	(27,689)	(25,815)	(29,306)	(26,267)	(26,994)	(25,081)
Net loss per share, basic and diluted	\$ (0.26)	\$ (0.24)	\$ (0.28)	\$ (0.26)	\$ (0.29)	\$ (0.26)	\$ (0.28)	\$ (0.26)
Weighted-average shares used to compute net loss per share, basic and diluted	102,044	102,044	100,659	100,659	99,506	99,506	97,475	97,475



Consolidated Statements of Cash Flows – FY17 & FY16

Condensed Consolidated Statements of Cash Flows

(In thousands; unaudited)

	Year Ended December 31,		Year Ended December 31,	
	2017 (Original)	2017 (Adjusted for 606)*	2016 (Original)	2016 (Adjusted for 606)*
Cash flows from operating activities				
Net loss	\$ (110,638)	\$ (102,141)	\$ (103,799)	\$ (97,620)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	31,931	31,931	27,506	27,506
Share-based compensation	85,049	84,552	73,779	73,429
Amortization of deferred costs	—	14,434	—	10,293
Excess tax benefit from share-based award activity	—	—	(337)	(337)
Other	603	603	3,106	3,106
Changes in operating assets and liabilities:				
Accounts receivable	(21,201)	(21,201)	(11,808)	(11,808)
Prepaid expenses and other current assets	(5,055)	(5,055)	(6,286)	(6,286)
Deferred costs	—	(22,761)	—	(15,277)
Other assets and liabilities	(5,955)	(5,955)	(3,887)	(3,887)
Accounts payable	1,839	1,839	(3,486)	(3,486)
Accrued liabilities	6,919	6,919	5,261	5,261
Accrued compensation and related benefits	7,399	7,399	6,055	6,055
Deferred revenue	51,204	51,531	38,418	37,573
Net cash provided by operating activities	42,095	42,095	24,522	24,522
Cash flows from investing activities				
Purchases of property and equipment	(16,396)	(16,396)	(20,647)	(20,647)
Internal-use software development costs	(7,521)	(7,521)	(6,310)	(6,310)
Purchases of marketable securities	(177,309)	(177,309)	(249,048)	(249,048)
Proceeds from maturities of marketable securities	116,735	116,735	39,690	39,690
Proceeds from sales of marketable securities	31,090	31,090	53,951	53,951
Cash paid for acquisition of Outbound, net of cash acquired	(16,470)	(16,470)	—	—
Net cash used in investing activities	(69,871)	(69,871)	(182,364)	(182,364)
Cash flows from financing activities				
Proceeds from exercise of employee stock options	31,882	31,882	25,412	25,412
Proceeds from employee stock purchase plan	14,248	14,248	11,004	11,004
Taxes paid related to net share settlement of share-based awards	(2,989)	(2,989)	(803)	(803)
Excess tax benefit from share-based award activity	—	—	337	337
Principal payments on debt	—	—	(323)	(323)
Net cash provided by financing activities	43,141	43,141	35,627	35,627
Effect of exchange rate changes on cash and cash equivalents	328	328	(334)	(334)
Net increase (decrease) in cash and cash equivalents	15,693	15,693	(122,549)	(122,549)
Cash and cash equivalents at beginning of period	93,677	93,677	216,226	216,226
Cash and cash equivalents at end of period	\$ 109,370	\$ 109,370	\$ 93,677	\$ 93,677

*As a result of adopting ASU 2016-18 "Statement of Cash Flows" on January 1, 2018, the actual adjusted statements of cash flows will differ immaterially.



Consolidated Statements of Cash Flows – FY17 Quarterly

Condensed Consolidated Statements of Cash Flows

(In thousands; unaudited)

	Three Months Ended December 31,		Three Months Ended September 30,		Three Months Ended June 30,		Three Months Ended March 31,	
	2017 (Original)	2017 (Adjusted for 606)*	2017 (Original)	2017 (Adjusted for 606)*	2017 (Original)	2017 (Adjusted for 606)*	2017 (Original)	2017 (Adjusted for 606)*
Cash flows from operating activities								
Net loss	\$ (26,649)	\$ (24,978)	\$ (27,689)	\$ (25,815)	\$ (29,306)	\$ (26,267)	\$ (26,994)	\$ (25,081)
Adjustments to reconcile net loss to net cash provided by operating activities:								
Depreciation and amortization	7,668	7,668	8,131	8,131	8,209	8,209	7,923	7,923
Share-based compensation	22,244	22,128	22,518	22,376	21,074	20,945	19,213	19,104
Amortization of deferred costs	—	4,102	—	3,734	—	3,419	—	3,179
Other	222	222	22	22	(338)	(338)	697	697
Changes in operating assets and liabilities:								
Accounts receivable	(6,162)	(6,162)	(10,420)	(10,420)	(2,303)	(2,303)	(2,316)	(2,316)
Prepaid expenses and other current assets	54	54	(2,094)	(2,094)	(2,502)	(2,502)	(513)	(513)
Deferred costs	—	(7,167)	—	(5,986)	—	(5,507)	—	(4,102)
Other assets and liabilities	(442)	(442)	(1,919)	(1,919)	(3,262)	(3,262)	(332)	(332)
Accounts payable	(5,398)	(5,398)	3,428	3,428	1,851	1,851	1,958	1,958
Accrued liabilities	76	76	2,655	2,655	1,664	1,664	2,524	2,524
Accrued compensation and related benefits	5,896	5,896	109	109	3,990	3,990	(2,596)	(2,596)
Deferred revenue	19,847	21,357	12,773	13,293	10,999	10,177	7,585	6,704
Net cash provided by operating activities	17,356	17,356	7,514	7,514	10,076	10,076	7,149	7,149
Cash flows from investing activities								
Purchases of property and equipment	(3,062)	(3,062)	(4,058)	(4,058)	(4,485)	(4,485)	(4,791)	(4,791)
Internal-use software development costs	(2,284)	(2,284)	(1,922)	(1,922)	(1,463)	(1,463)	(1,852)	(1,852)
Purchases of marketable securities	(42,030)	(42,030)	(52,954)	(52,954)	(41,567)	(41,567)	(40,758)	(40,758)
Proceeds from maturities of marketable securities	27,775	27,775	27,274	27,274	30,032	30,032	31,654	31,654
Proceeds from sales of marketable securities	2,946	2,946	7,401	7,401	12,141	12,141	8,602	8,602
Cash paid for the acquisition of Outbound, net of cash acquired	—	—	—	—	(16,470)	(16,470)	—	—
Net cash used in investing activities	(16,655)	(16,655)	(24,259)	(24,259)	(21,812)	(21,812)	(7,145)	(7,145)
Cash flows from financing activities								
Proceeds from exercise of employee stock options	13,332	13,332	3,375	3,375	3,486	3,486	11,689	11,689
Proceeds from employee stock purchase plan	3,268	3,268	3,841	3,841	3,295	3,295	3,844	3,844
Taxes paid related to net share settlement of share-based awards	(574)	(574)	(652)	(652)	(1,609)	(1,609)	(154)	(154)
Net cash provided by financing activities	16,026	16,026	6,564	6,564	5,172	5,172	15,379	15,379
Effect of exchange rate changes on cash and cash equivalents	40	40	9	9	81	81	198	198
Net increase (decrease) in cash and cash equivalents	16,767	16,767	(10,172)	(10,172)	(6,483)	(6,483)	15,581	15,581
Cash and cash equivalents at beginning of period	92,603	92,603	102,775	102,775	109,258	109,258	93,677	93,677
Cash and cash equivalents at end of period	\$ 109,370	\$ 109,370	\$ 92,603	\$ 92,603	\$ 102,775	\$ 102,775	\$ 109,258	\$ 109,258

*As a result of adopting ASU 2016-18 "Statement of Cash Flows" on January 1, 2018, the actual adjusted statements of cash flows will differ immaterially.



Non-GAAP Reconciliation Tables

Non-GAAP Reconciliations – FY17 & FY16

Non-GAAP Results

(In thousands)

The following table shows Zendesk's GAAP results reconciled to non-GAAP results.

	Year ended December 31,		Year ended December 31,	
	2017 (Original)	2017 (Adjusted for 606)	2016 (Original)	2016 (Adjusted for 606)
Reconciliation of gross profit and gross margin				
GAAP gross profit	\$ 303,070	\$ 302,743	\$ 218,099	\$ 218,944
Plus: Share-based compensation	9,040	9,040	7,045	7,045
Plus: Employer tax related to employee stock transactions	530	530	383	383
Plus: Amortization of purchased intangibles	3,209	3,209	3,362	3,362
Plus: Amortization of share-based compensation capitalized in internal-use software	1,774	1,774	1,821	1,821
Non-GAAP gross profit	\$ 317,623	\$ 317,296	\$ 230,710	\$ 231,555
GAAP gross margin	70%	70%	70%	70%
Non-GAAP adjustments	4%	4%	4%	4%
Non-GAAP gross margin	74%	74%	74%	74%
Reconciliation of operating expenses				
GAAP research and development	\$ 115,291	\$ 115,291	\$ 91,067	\$ 91,067
Less: Share-based compensation	(29,970)	(29,970)	(27,083)	(27,083)
Less: Employer tax related to employee stock transactions	(1,971)	(1,971)	(1,559)	(1,559)
Less: Acquisition-related expenses	(843)	(843)	—	—
Non-GAAP research and development	\$ 82,507	\$ 82,507	\$ 62,425	\$ 62,425
GAAP research and development as percentage of revenue	27%	27%	29%	29%
Non-GAAP research and development as percentage of revenue	19%	19%	20%	20%
GAAP sales and marketing	\$ 220,742	\$ 211,918	\$ 166,987	\$ 161,653
Less: Share-based compensation	(24,776)	(24,279)	(23,043)	(22,693)
Less: Employer tax related to employee stock transactions	(1,164)	(1,164)	(1,342)	(1,342)
Less: Amortization of purchased intangibles	(495)	(495)	(418)	(418)
Less: Acquisition-related expenses	(750)	(750)	—	—
Non-GAAP sales and marketing	\$ 193,557	\$ 185,230	\$ 142,184	\$ 137,200
GAAP sales and marketing as percentage of revenue	51%	49%	54%	52%
Non-GAAP sales and marketing as percentage of revenue	45%	43%	46%	44%
GAAP general and administrative	\$ 81,680	\$ 81,680	\$ 64,371	\$ 64,371
Less: Share-based compensation	(21,263)	(21,263)	(16,608)	(16,608)
Less: Employer tax related to employee stock transactions	(1,184)	(1,184)	(586)	(586)
Less: Acquisition-related expenses	(566)	(566)	—	—
Non-GAAP general and administrative	\$ 58,667	\$ 58,667	\$ 47,177	\$ 47,177
GAAP general and administrative as percentage of revenue	19%	19%	21%	21%
Non-GAAP general and administrative as percentage of revenue	14%	14%	15%	15%
Reconciliation of operating loss and operating margin				
GAAP operating loss	\$ (114,643)	\$ (106,146)	\$ (104,326)	\$ (98,147)
Plus: Share-based compensation	85,049	84,552	73,779	73,429
Plus: Employer tax related to employee stock transactions	4,849	4,849	3,870	3,870
Plus: Amortization of purchased intangibles	3,704	3,704	3,780	3,780
Plus: Acquisition-related expenses	2,159	2,159	—	—
Plus: Amortization of share-based compensation capitalized in internal-use software	1,774	1,774	1,821	1,821
Non-GAAP operating loss	\$ (17,108)	\$ (9,108)	\$ (21,076)	\$ (15,247)
GAAP operating margin	-27%	-25%	-33%	-31%
Non-GAAP adjustments	23%	23%	26%	26%
Non-GAAP operating margin	-4%	-2%	-7%	-5%



Non-GAAP Reconciliations - FY17

Non-GAAP Results

(In thousands)

The following table shows Zendesk's GAAP results reconciled to non-GAAP results.

	Three Months Ended December 31,		Three Months Ended September 30,		Three Months Ended June 30,		Three Months Ended March 31,	
	2017 (Original)	2017 (Adjusted for 606)	2017 (Original)	2017 (Adjusted for 606)	2017 (Original)	2017 (Adjusted for 606)	2017 (Original)	2017 (Adjusted for 606)
Reconciliation of gross profit and gross margin								
GAAP gross profit	\$ 88,468	\$ 86,958	\$ 79,093	\$ 78,572	\$ 70,610	\$ 71,433	\$ 64,900	\$ 65,781
Plus: Share-based compensation	2,372	2,372	2,408	2,408	2,156	2,156	2,104	2,104
Plus: Employer tax related to employee stock transactions	129	129	98	98	133	133	169	169
Plus: Amortization of purchased intangibles	612	612	848	848	919	919	830	830
Plus: Amortization of share-based compensation capitalized in internal-use software	417	417	479	479	448	448	430	430
Non-GAAP gross profit	\$ 91,998	\$ 90,488	\$ 82,926	\$ 82,405	\$ 74,266	\$ 75,089	\$ 68,433	\$ 69,314
GAAP gross margin	72%	71%	70%	70%	70%	70%	70%	70%
Non-GAAP adjustments	3%	3%	4%	3%	3%	4%	4%	4%
Non-GAAP gross margin	75%	74%	74%	73%	73%	74%	74%	74%
Reconciliation of operating expenses								
GAAP research and development	\$ 30,779	\$ 30,779	\$ 29,358	\$ 29,358	\$ 28,698	\$ 28,698	\$ 26,456	\$ 26,456
Less: Share-based compensation	(7,697)	(7,697)	(7,776)	(7,776)	(7,584)	(7,584)	(6,914)	(6,914)
Less: Employer tax related to employee stock transactions	(816)	(816)	(252)	(252)	(356)	(356)	(548)	(548)
Less: Acquisition-related expenses	(406)	(406)	(261)	(261)	(175)	(175)	—	—
Non-GAAP research and development	\$ 21,860	\$ 21,860	\$ 21,069	\$ 21,069	\$ 20,583	\$ 20,583	\$ 18,994	\$ 18,994
GAAP research and development as percentage of revenue	25%	25%	26%	26%	28%	28%	28%	28%
Non-GAAP research and development as percentage of revenue	18%	18%	19%	19%	20%	20%	20%	20%
GAAP sales and marketing	\$ 64,035	\$ 60,854	\$ 56,778	\$ 54,383	\$ 52,628	\$ 50,412	\$ 47,301	\$ 46,269
Less: Share-based compensation	(6,414)	(6,298)	(6,716)	(6,573)	(6,013)	(5,884)	(5,633)	(5,524)
Less: Employer tax related to employee stock transactions	(356)	(356)	(195)	(195)	(247)	(247)	(367)	(367)
Less: Amortization of purchased intangibles	(135)	(135)	(135)	(135)	(123)	(123)	(102)	(102)
Less: Acquisition-related expenses	(281)	(281)	(281)	(281)	(187)	(187)	—	—
Non-GAAP sales and marketing	\$ 56,849	\$ 53,784	\$ 49,451	\$ 47,199	\$ 46,058	\$ 43,971	\$ 41,199	\$ 40,276
GAAP sales and marketing as percentage of revenue	52%	50%	50%	48%	52%	49%	51%	49%
Non-GAAP sales and marketing as percentage of revenue	46%	44%	44%	42%	45%	43%	44%	43%
GAAP general and administrative	\$ 22,177	\$ 22,177	\$ 21,398	\$ 21,398	\$ 19,788	\$ 19,788	\$ 18,317	\$ 18,317
Less: Share-based compensation	(5,761)	(5,761)	(5,619)	(5,619)	(5,321)	(5,321)	(4,562)	(4,562)
Less: Employer tax related to employee stock transactions	(671)	(671)	(109)	(109)	(133)	(133)	(270)	(270)
Less: Acquisition-related expenses	(45)	(45)	—	—	(522)	(522)	—	—
Non-GAAP general and administrative	\$ 15,700	\$ 15,700	\$ 15,670	\$ 15,670	\$ 13,812	\$ 13,812	\$ 13,485	\$ 13,485
GAAP general and administrative as percentage of revenue	18%	18%	19%	19%	20%	19%	20%	20%
Non-GAAP general and administrative as percentage of revenue	13%	13%	14%	14%	14%	14%	14%	14%
Reconciliation of operating loss and operating margin								
GAAP operating loss	\$ (28,523)	\$ (26,852)	\$ (28,441)	\$ (26,567)	\$ (30,504)	\$ (27,465)	\$ (27,174)	\$ (25,261)
Plus: Share-based compensation	22,244	22,128	22,519	22,376	21,074	20,945	19,213	19,104
Plus: Employer tax related to employee stock transactions	1,972	1,972	654	654	869	869	1,354	1,354
Plus: Amortization of purchased intangibles	747	747	983	983	1,042	1,042	932	932
Plus: Acquisition-related expenses	732	732	542	542	884	884	—	—
Plus: Amortization of share-based compensation capitalized in internal-use software	417	417	479	479	448	448	430	430
Non-GAAP operating loss	\$ (2,411)	\$ (856)	\$ (3,264)	\$ (1,533)	\$ (6,187)	\$ (3,277)	\$ (5,245)	\$ (3,441)
GAAP operating margin	(23)%	(22)%	(25)%	(24)%	(30)%	(27)%	(29)%	(27)%
Non-GAAP adjustments	21%	21%	22%	23%	24%	24%	23%	23%
Non-GAAP operating margin	(2)%	(1)%	(3)%	(1)%	(6)%	(3)%	(6)%	(4)%

