

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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: **001-38451**

Zuora, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-5530976

(I.R.S. Employer
Identification Number)

101 Redwood Shores Parkway,
Redwood City, California
(Address of principal executive offices)

94065
(Zip Code)

(888) 976-9056

(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, par value \$0.0001 per share | ZUO | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: None

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 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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <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 Act). Yes No

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant, based on the closing price, as reported by the New York Stock Exchange, of the Registrant's Class A common stock, as of July 31, 2020, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$1.2 billion. Solely for purposes of this disclosure, shares of the Registrant's Class A common stock and Class B common stock held by executive officers and directors of the Registrant as of such date have been excluded because such persons may be deemed to be affiliates. This determination of executive officers and directors as affiliates is not necessarily a conclusive determination for any other purposes.

As of February 28, 2021, the number of shares of the Registrant's Class A common stock outstanding was 110.0 million and the number of shares of the Registrant's Class B common stock outstanding was 11.0 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the 2021 Annual Meeting of Stockholders are incorporated herein by reference 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. Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

PART I

| | | <u>Page</u> |
|----------|---|-------------|
| Item 1. | Business | <u>2</u> |
| Item 1A. | Risk Factors | <u>9</u> |
| Item 1B. | Unresolved Staff Comments | <u>42</u> |
| Item 2. | Properties | <u>42</u> |
| Item 3. | Legal Proceedings | <u>42</u> |
| Item 4. | Mine Safety Disclosures | <u>42</u> |

PART II

| | | |
|----------|--|------------|
| Item 5. | Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | <u>43</u> |
| Item 6. | Selected Consolidated Financial Data and Other Data | <u>44</u> |
| Item 7. | Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>48</u> |
| Item 7A. | Quantitative and Qualitative Disclosures about Market Risk | <u>68</u> |
| Item 8. | Financial Statements and Supplementary Data | <u>70</u> |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | <u>100</u> |
| Item 9A. | Controls and Procedures | <u>100</u> |
| Item 9B. | Other Information | <u>101</u> |

PART III

| | | |
|----------|--|------------|
| Item 10. | Directors, Executive Officers and Corporate Governance | <u>102</u> |
| Item 11. | Executive Compensation | <u>102</u> |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | <u>102</u> |
| Item 13. | Certain Relationships and Related Transactions, and Director Independence | <u>102</u> |
| Item 14. | Principal Accounting Fees and Services | <u>102</u> |

PART IV

| | | |
|----------|---|------------|
| Item 15. | Exhibits, Financial Statement Schedules | <u>103</u> |
| Item 16. | Form 10-K Summary | <u>105</u> |

SIGNATURES

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Unless the context otherwise requires, references in this Annual Report on Form 10-K (Form 10-K) to “Zuora,” “Company,” “our,” “us,” and “we” refer to Zuora, Inc. and where appropriate, its consolidated subsidiaries. Our fiscal year end is January 31. References to “fiscal” followed by the year refer to the fiscal year ended January 31 for the referenced year.

This Form 10-K contains forward-looking statements within the meaning of the federal securities laws. All statements contained in this Form 10-K, other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, market growth, and our objectives for future operations, are forward-looking statements. Words such as “believes,” “may,” “will,” “estimates,” “potential,” “continues,” “anticipates,” “intends,” “expects,” “could,” “would,” “projects,” “plans,” “targets,” and variations of such words and similar expressions are intended to identify forward-looking statements.

Forward-looking statements contained in this Form 10-K include, but are not limited to, statements about our expectations regarding:

- the duration and impact of the ongoing coronavirus (COVID-19) pandemic on our business and the economy;
- trends in revenue, cost of revenue, and gross margin;
- economic and industry trends, projected growth, or trend analysis;
- our investments in our platform and the cost of third-party hosting fees;
- the expansion and functionality of our technology offering and our ability to further penetrate our customer base;
- trends in operating expenses, including research and development expense, sales and marketing expense, and general and administrative expense, and expectations regarding these expenses as a percentage of revenue;
- our existing cash and cash equivalents, investment balances, funds available under our loan and security agreement, and cash provided by subscriptions to our platform and related professional services being sufficient to meet our working capital and capital expenditure needs for at least the next 12 months; and
- other statements regarding our future operations, financial condition, and prospects and business strategies.

Such forward-looking statements are based on our expectations as of the date of this filing and are subject to a number of risks, uncertainties and assumptions, including but not limited to, risks detailed in the “Risk Factors” section of this Form 10-K. Readers are urged to carefully review and consider the various disclosures made in this Form 10-K and in other documents we file from time to time with the Securities and Exchange Commission (SEC) that disclose risks and uncertainties that may affect our business. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and circumstances discussed in this Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance or achievements. In addition, the forward-looking statements in this Form 10-K are made as of the date of this filing, and we do not undertake, and expressly disclaim any duty, to update such statements for any reason after the date of this Form 10-K or to conform statements to actual results or revised expectations, except as required by law.

PART I

Item 1. Business

Overview

Zuora provides a cloud-based subscription management platform, architected specifically for dynamic, recurring business models. Our solution enables companies across multiple industries and geographies to launch, manage and scale a subscription business, automating the entire subscription order-to-revenue process, including billing, collections and revenue recognition. With Zuora's solution, businesses can change pricing and packaging for products and services to grow and scale, efficiently comply with revenue recognition standards, analyze customer data to optimize their subscription offerings, and build meaningful relationships with their subscribers.

Many of today's enterprise software systems manage their order-to-revenue processes using software built for a product driven economy. These systems were not designed for the dynamic, ongoing nature of subscription services and can be extremely difficult to configure. In traditional product-based businesses, order-to-revenue was a linear process—a customer orders a product, is billed for that product, payment is collected, and the revenue is recognized. These legacy product-based systems were not specifically designed to handle the complexities and ongoing customer events of recurring relationships, commonly found in a subscription business, and their impact on areas such as billing proration, revenue recognition, and reporting in real-time. Using product-based software to build a subscription business often results in inefficient processes with prolonged and complex manual downstream work, hard-coded customizations, and a proliferation of stock-keeping units (SKUs).

However, new subscription business models are inherently dynamic, with multiple interactions and constantly-changing relationships and events. The capabilities to launch, price, and bill for products, facilitate and record cash receipts, process and recognize revenue, and analyze data to drive key decisions are mission critical and particularly complex for companies with subscription business models. As a result, as companies launch or grow a subscription business, they often conclude that legacy systems are inadequate. That's where Zuora comes in.

Our vision is "The World Subscribed" -- the idea that one day every company will be a part of the Subscription Economy. Our focus has been on developing software that enables our customers to thrive as a subscription business.

Our solution includes *Zuora Central Platform*, *Zuora Billing*, *Zuora Revenue*, *Zuora Collect*, and other software that support and expand upon these core products. Our software helps companies analyze data - including information such as which customers are delivering the most recurring revenue, or which segments are showing the highest churn, enabling customers to make informed decisions for their subscription business and quickly implement changes such as launching new services, updating pricing (usage, time, or outcome based), delivering new offerings, or making other changes to their customers' subscription experience. We also have a large subscription ecosystem of global partners and the Subscribed Strategy Group, that can assist our customers with additional strategies and services throughout the subscription journey.

Companies in a variety of industries - technology, manufacturing, media and entertainment, telecommunications, and many others - are using our solution to scale and adapt to a world that is increasingly choosing subscription-based offerings. Our customers include over 25 of the Fortune 100 and 8 of the top 10 auto manufacturers.

Business Benefits of Using Our Solution

Zuora's products enable companies to:

- **Enable New Recurring Revenue.** Zuora helps companies to transform their existing product-centric business models into subscription services to take advantage of the predictability and resilience of recurring revenue.

- **Reduce Time to Market.** Zuora significantly reduces the time required to go-to-market with new subscription offerings and to iterate on the pricing and packaging of existing offerings, enabling businesses to quickly react to changing market and customer needs, launch new services, and enter new markets. Changes can be made in minutes without having to re-code or re-engineer back office systems.

- **Increase Operational Efficiencies.** Customers regularly make changes to their subscriptions. Zuora automates these processes and reduces the impact of changes, including proration for invoices, changes to

revenue recognition, taxation, provisioning, and reporting. Automating these functions saves businesses valuable time and resources by eliminating manual processes and customizations and increasing operational efficiencies.

• **Free Up IT and Engineering Resources.** Our cloud-based solution reduces both system complexity and costs. With Zuora, engineering and IT departments no longer need to build in-house custom systems or customizations for their Enterprise Resource Planning (ERP) systems to keep up with market changes, ongoing customer demands, and new order-to-cash processes.

• **Establish a Single System of Record.** Our solution captures financial and operational data and enables subscription businesses to have a single system of record rather than having to reconcile data from multiple systems. Key business metrics can be accessed at any point in time to make critical business decisions.

• **Make Customer Data-Driven Decisions.** Because our solution serves as a single source of data and information for subscribers, companies can use Zuora to gain insight into customer behavior. This helps them understand their subscribers better, predict up-sell opportunities, and increase customer retention.

• **Access Growing Ecosystem of Order-to-Revenue Software Partners.** Our solution has over 50 pre-built connectors to various order-to-revenue software partners, including payment gateways, tax vendors, general ledgers, and Customer Relationship Management (CRM) systems. Rather than building integrations for each of these, our customers can take advantage of pre-built connectors to extend the capabilities of Zuora for specific industries.

• **Support Rapid International Expansion.** With over 35 pre-built payment gateways, over 150 supported currencies, and over 15 supported payment methods, our solution enables companies to quickly expand internationally and acquire and support customers in new geographical regions.

• **Automate Revenue Recognition.** In light of the accounting complexities associated with subscription models, our revenue recognition product automates revenue recognition processes in compliance with accounting standards and reduces our customers' reliance on error-prone manual processing and spreadsheets.

Products

Our solution is the system of record for our customers' subscription businesses. We can deploy and configure our portfolio of products to meet a wide variety of use cases for subscription business models.

We offer four flagship products:

• **Zuora Central Platform.** Our *Zuora Central Platform* acts as an orchestration engine for all subscription data and processes, allowing customers to power their order-to-revenue operations and customer experiences for subscription business models. Our *Zuora Central Platform* provides the following capabilities:

- Integrated data model enabling customers to manage their subscribers and easily set up and iterate products, subscribers, subscriptions, rate plans, payment methods and other data necessary to orchestrate the subscriber experiences.
- Enterprise-grade capabilities for security, compliance, and tenant management as well as capabilities to integrate to any relevant enterprise application such as configure-price-quote (CPQ), e-commerce, customer portal, and general ledger.
- Develop tools that enable customers and system integrators to customize and extend the functionality of the platform, including workflow, custom objects, data queries, and test environments.
- Analytics and reporting to provide customers insights from their subscriber data and related activity across the subscriber lifecycle, including out-of-the-box subscription metrics such as monthly recurring revenue (MRR), annual contract value (ACV), and customer churn.

•**Zuora Billing.** Designed specifically for subscription billing, *Zuora Billing* allows our customers to deploy and tailor a variety of pricing and packaging models to support their subscription business, to efficiently and accurately bill customers, to calculate proration when subscriptions change, and to group customers into batches for different billing and payment operations. The product also helps our customers set payment terms, manage hierarchical billing relationships, consolidate invoicing across multiple subscriptions, and collect revenue using a global network of payment gateways. *Zuora Billing* also includes our *Zuora CPQ* module, which enables customers to configure, price, and quote a wide variety of subscription transactions, including complex arrangements such as multi-year subscriptions, and price ramps. The *Zuora CPQ* module also uses a rules engine and guided selling workflows to help customers scale their sales teams.

•**Zuora Revenue.** *Zuora Revenue* is a revenue recognition automation solution that enables our customers to group transactions of goods and services into revenue contracts and performance obligations in accordance with recent revenue standards including ASC 606 and IFRS 15. *Zuora Revenue* helps our customers automate revenue and deferred revenue management in accordance with their accounting policies, business rules, and pricing models, including support for complex scenarios around Standalone Selling Price (SSP) analysis for determining the fair value of the individual goods and services sold and Cost Management Accounting and Amortization for all costs incurred as part of obtaining or fulfilling a contract with a customer.

•**Zuora Collect.** Specifically designed to handle the complicated function of collections associated with dynamic subscription-based businesses, *Zuora Collect* helps our customers streamline and optimize their collections processes with a particular emphasis around electronic payments collections. *Zuora Collect* enables customers to configure their own automated dunning workflows, orchestrating various retry rules for electronic payments, and targeting the root cause of a payment decline. We recently announced the addition of machine learning capabilities to the automated dunning capabilities of *Zuora Collect* to improve overall electronic payments success rates and reduce involuntary churn.

Competitive Strengths

We believe the following competitive advantages enable us to maintain and extend our leadership as the system of record for companies in the Subscription Economy:

- Comprehensive solution built specifically to handle the complexities of subscription business models;
- Flexible technology with a broad range of customers and use cases;
- Mission-critical system that is difficult to replace;
- Accelerated pace of innovation with over a decade of development experience;
- Deep domain expertise across a broad range of subscription business models;
- Proven track record with 676 customers with ACV over \$100,000 as of January 31, 2021;
- Strong network of system integrator partners; and
- Growing subscription economy ecosystem with dozens of pre-built integrations to payment gateways, tax solutions, and enterprise applications.

Growth Strategy

Key elements of our growth strategy include:

•**New Customer Acquisition.** As the Subscription Economy evolves, we intend to capitalize on our leadership and acquire new enterprise customers in current and future markets.

•**Expand Relationships with Existing Customers.** We intend to expand existing customers' use of our platform and drive sustainable growth in multiple ways, such as increasing transaction volume and up-sells and cross-sells with additional products.

•**Enter New Vertical Markets.** We currently have a strong position in four key markets: technology, media and telecommunications, manufacturing, and industrial and consumer IoT. We intend to expand to additional vertical markets over time.

•**Expand our Global Footprint.** As adoption of the Subscription Economy evolves throughout the world, we intend to expand into new geographies where we see future expansion opportunities.

• **Leverage Global Systems Integrators to Accelerate our Growth.** We intend to work with system integrators and leverage their role in advocating for and implementing our current and prospective customers' transformation to subscription business models.

• **Launch New Products and Extend our Technology Lead.** As we grow and evolve with our customers, we intend to continue to develop additional products and enhance our current offerings.

• **Optimize Pricing and Packaging.** We intend to optimize and enhance pricing and packaging to align the value customers realize from our products with the revenue we receive.

Our Customers

Organizations of all sizes, across a wide variety of industries and in many locations around the world, have adopted our solution. As of January 31, 2021, we had 676 customers with ACV equal to or greater than \$100,000, representing over 90% of our total ACV. As of January 31, 2020 and 2019, we had 624 and 526 customers, respectively, with ACV equal to or greater than \$100,000. We define the number of customers at the end of any particular period as the number of parties or organizations that have entered into a distinct subscription contract with us for which the term has not ended. Each party with which we have entered into a distinct subscription contract is considered a unique customer, and in some cases, there may be more than one customer within a single organization. For more information on ACV, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Operational and Financial Metrics."

Sales and Marketing

We market and sell to organizations of all sizes across a broad range of industries. Our key focus areas are companies that are adopting, transforming, and expanding their subscription businesses.

We have an enterprise sales model supported by a field sales organization. Because of the transformative nature of our solution, especially in larger organizations, the selling process is often complex and can involve agreement across multiple departments inside an organization, including the chief executive officer. Over the years, we have developed methodologies and best practices to assist our sales teams in navigating these challenges and have built these learnings into our sales enablement and training to assist with onboarding and productivity of new sales account executives. We believe our sales methodologies and processes offer us significant advantages, particularly in long enterprise sales-cycles. Our sales teams are organized by geographic territories, customer size, and customer verticals. We plan to continue to invest in our direct sales force to grow our enterprise customer base, both domestically and internationally.

We conduct a wide range of account-based marketing activities such as virtual webinars and online events; partner marketing with our system integrators, consultants, and ecosystem partners; the Subscription Economy Index, our study of the collective health of subscription businesses and their impact on the overall economy; and as educational content, data-based benchmarks and best practices sharing for the Subscription Economy in a variety of formats such as digital, print, and video on Zuora.com and Subscribed.com.

In fiscal 2021, we announced the Subscribed Strategy Group (SSG), which works directly with individual companies and helps them apply expertise attained from the Subscribed Institute's research to their specific business needs. The SSG works one-on-one with executives from our customer organizations to chart a strategic path towards subscription success by identifying and removing business obstacles, building internal alignment, and establishing routes to success. Best practices developed from our work with over a thousand subscription companies around the world help our customers make critical business decisions, adopt new strategies, and measure their success at regular intervals.

As newer markets emerge domestically and internationally, we plan to continue investing in our sales and marketing to grow our customer base.

Competition

The market for subscription management products and services is highly competitive, rapidly evolving, fragmented, and subject to changing technology, shifting customer needs, and frequent introductions of new products and services.

Our main competitors fall into the following categories:

- providers of traditional ERP software, such as Oracle Corporation and SAP SE;

- providers of CRM applications such as Salesforce;
- traditional order-to-revenue solutions that address individual elements of the subscription revenue process, such as traditional CPQ management, billing, collections, revenue recognition, or e-commerce software;
- niche billing systems for telecommunications, such as Amdocs Limited;
- payment platforms that offer built-in recurring billing functionality;
- smaller subscription billing providers; and
- in-house custom built systems.

We believe the principal competitive factors in our market include:

- subscription-based product features and functionality;
- ability to support the specific needs of companies with subscription business models;
- ease of use;
- vision for the market and product innovation;
- enterprise-grade performance and features such as system scalability, security, performance, and resiliency;
- customer experience, including support and professional services;
- strength of sales and marketing efforts;
- relationships with system integrators, management consulting firms, and resellers;
- ability to integrate with legacy and other enterprise infrastructures and third-party applications;
- brand awareness and reputation; and
- total cost of the solution.

We believe we compete favorably against our competitors with respect to these factors. Our ability to compete will largely depend on our ongoing performance and the quality of our platform.

Human Capital

Our Chief Human Resources Officer and Chief Diversity Officer together are responsible for developing and executing our human capital strategy. This includes our approach to attracting, hiring, onboarding, developing, engaging and retaining a diverse and inclusive employee base. Our culture is rooted in the premise that our employees, whom we call “ZEOs”, are CEOs of their careers. Our ZEO culture values freedom, responsibility and accountability for ZEOs to chart their own path in achieving Zuora's mission of enabling customer success. As of January 31, 2021, we had a total of 1,190 employees, of whom 499 were located outside the United States, primarily in Europe, Asia and Australia.

Employee Culture and Community Involvement

Our culture is a critical component of our success. Our ZEOs are the lifeblood of our company and we strive to create an environment where they feel empowered and inspired to contribute to our mission to power the Subscription Economy. Our culture focuses on fostering a collaborative, fun, high performance and inclusive environment where ZEOs can achieve individual and team objectives and key results. We provide opportunities for our ZEOs to grow in both formal and informal learning environments, as well as create a strong emphasis on internal mobility growth opportunities.

We encourage our ZEOs to give back to the causes that matter to them. In 2017, Zuora became a member of the Pledge 1% movement and we are committed to leveraging our employees' time and talent to make the communities where we live and work stronger. To facilitate our Pledge 1% initiative, we have empowered our employees with the tools and resources they need to create local Z-Philanthropy chapters at our offices worldwide. Through our Z-Philanthropy chapters, ZEOs in our offices across the globe step up to lead giving and volunteering efforts throughout the year and create lasting partnerships with local nonprofits through these employee-led groups. In addition to the sustained efforts of our local Z-Philanthropy chapters, we host an annual Global Week of Giving where ZEOs worldwide participate in volunteer and fundraising events.

In 2019, we also launched Zuora.org, which is a part of our company and not a separate legal entity. To date, we have issued 121,267 shares of our Class A common stock to the Zuora Impact Fund, a donor-advised fund managed by the Tides Foundation, and we expect to contribute additional shares in the future. This fund issues grants to organizations committed to providing workforce development and supporting inclusive economies. During fiscal 2021, we made contributions to over 50 different funds or organizations under the Zuora Impact Fund, including to the Australian Red Cross Society, the United Nations Foundation, Rise Against Hunger, NAACP Legal Defense and Education Fund and Black Lives Matter Global Network Project. In addition to supporting our global ZEOs' passions around volunteering, we support the work of our ZEOs in their communities through grantmaking and ZEOs can apply for grants up to \$5,000 to support nonprofit organizations. Additionally, our Zuora Impact Fund Committee, composed of a group of ZEOs from across the world, helps Zuora in its donation determinations.

Diversity and Inclusion

Diversity and inclusion are key to our success. We seek and embrace employees who bring diverse backgrounds, perspectives, and experiences to our ZEO culture. Our commitment to developing a diverse and thriving workforce and inclusive ZEO culture begins at the top, with our Founder and CEO Tien Tzuo, and the entire executive team. Our executive management team is currently composed of 36% women, and 27% who self-identify as coming from certain underrepresented groups. In addition, our Board of Directors is made up of highly skilled individuals from the technology and business sectors. Women represent 25% of our Board of Directors and 37% of our Board of Directors identify as members of certain underrepresented groups.

In fiscal 2021, we created a standalone Diversity & Inclusion (D&I) department, led by our recently hired Chief Diversity Officer, to help us increase our diversity by weaving inclusion into all aspects of how we work with each other, build and deliver products and experiences to customers, and contribute to our local communities. Our ZEO employee resource groups (ERGs) play a key role in this effort. Our ERGs are ZEO-founded and led groups and open to all ZEOs. Current D&I-focused ERGs, which are aimed at elevating the experiences and interests of key underrepresented groups in our workforce, include Out at Zuora, supporting LGBTQ+ ZEOs and allies; Zuora Familia, supporting our Hispanic and Latinx ZEOs; Zuora Black Network, supporting our Black ZEOs around the world; and Z-Women, our largest ERG, supporting women ZEOs.

While our ERGs are a critical component of increasing belonging and inclusion among ZEOs, increasing education is equally critical for strengthening inclusive processes and behaviors in our workforce. At the end of fiscal 2020, we launched our first global unconscious bias training module and plan to build on that foundation in fiscal 2022.

Employee Development and Training

We believe that investing in the growth and development of our ZEOs will directly enhance our overall company performance. As owners of their careers, ZEOs are encouraged to invest regularly in their own professional development. In support of this, we offer mentorship programs, leadership programs, and other Z-Grow employee trainings, which are designed to help ZEOs develop and manage their careers, drive accountability, and promote a culture of continuous feedback. Additionally, through our Career Cash program, we offer ZEOs a stipend to pursue external courses and learning opportunities to enhance their professional development.

Competitive Pay and Benefits

We strive to provide pay, comprehensive benefits and services that help meet the varying needs of our ZEOs. Our total rewards package includes market-competitive pay, including equity compensation, paid time off, and other comprehensive and competitive global benefits. For example, in the United States, we provide 26 weeks of paid parental leave for new parents who have been employed with us for at least six months. To foster a stronger sense of ownership and align ZEO interests with our stockholders' interests, we offer equity compensation under our broad-based stock incentive programs. We also offer the opportunity for eligible ZEOs in the United States and certain international locations to participate in our employee stock purchase plan (ESPP).

Intellectual Property

We primarily rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality procedures, contractual commitments, and other legal rights to protect our intellectual property. As of January 31, 2021, in the United States, we held 13 issued patents that expire between 2033 and 2039, and had 18 patent applications pending. We also held one issued patent in Australia that expires in 2032 (absent any extensions), and had nine patent applications pending in other foreign jurisdictions. We also pursue the registration of our domain

names, trademarks, and service marks in the United States and in certain foreign jurisdictions. As of January 31, 2021, we had 17 registered trademarks in the United States, including Zuora, Subscription Economy, Subscribed, and Powering the Subscription Economy. We also had 17 registered trademarks in foreign jurisdictions. In addition, we enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with other parties in connection with the disclosure of our confidential information.

Intellectual property laws, procedures, and restrictions provide only limited protection and any of our intellectual property rights may be challenged, invalidated, circumvented, infringed, or misappropriated. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States and, therefore, in certain jurisdictions, we may be unable to protect our proprietary technology.

Backlog

We generally enter into subscription agreements with our customers with one- to three-year terms. The timing of our invoices to the customer is a negotiated term and thus varies among our subscription contracts. We typically invoice customers in advance in either annual or quarterly installments. Due to this, at any point in the contract term, there can be amounts that we have not yet been contractually able to invoice. Until such time as these amounts are invoiced, they are not recorded in revenue, deferred revenue, or elsewhere in our consolidated financial statements, and are considered by us to be backlog.

We expect that the amount of backlog relative to the total value of our contracts will change from year to year for several reasons, including the amount of cash collected early in the contract term, the specific timing and duration of large customer subscription agreements, varying invoicing cycles of subscription agreements, the specific timing of customer renewal, changes in customer financial circumstances, and foreign currency fluctuations. Moreover, customers may attempt to renegotiate the terms of their agreements to, among other things, change their committed volume during the term of the subscription agreements. Our customers also often make other alterations to their subscription agreements during the term of the agreement, including changing their platform edition or the products they subscribe to. All of these changes during the term of a customer's subscription agreement may significantly impact the firm backlog as of any particular date. Accordingly, we believe that fluctuations in backlog are not necessarily a reliable indicator of future revenue and we do not utilize backlog as a key management metric internally.

Corporate Information

We were incorporated in the State of Delaware in September 2006. Our principal executive offices are located at 101 Redwood Shores Parkway, Redwood City, California 94065 and our telephone number is (888) 976-9056. Our website address is www.zuora.com, and our investor relations website is <https://investor.zuora.com>. The information on, or that can be accessed through, our website is not part of this Annual Report on Form 10-K. Investors should not rely on any such information in deciding whether to purchase our Class A common stock.

Zuora, the Zuora logo, *Subscription Economy*, *Zuora Central Platform*, *Zuora Billing*, *Zuora Revenue*, *Zuora CPQ*, *Zuora Collect*, *Zuora Marketplace*, *Subscribed*, and other registered or common law trade names, trademarks, or service marks of Zuora appearing in this Form 10-K are the property of Zuora. This Form 10-K contains additional trade names, trademarks, and service marks of other companies that are the property of their respective owners. We do not intend our use or display of other companies' trade names, trademarks, or service marks to imply a relationship with, or endorsement or sponsorship of us by, these other companies. Solely for convenience, our trademarks and tradenames referred to in this Form 10-K appear without the ® and ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights, or the right of the applicable licensor, to these trademarks and tradenames.

Available Information

Our reports filed with or furnished to the SEC pursuant to Sections 13(a) and 15(d) of the Exchange Act are available, free of charge, on our Investor Relations website at <https://investor.zuora.com> as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains a website at <http://www.sec.gov> that contains reports, and other information regarding us and other companies that file materials with the SEC electronically. We use our Investor Relations website as a means of disclosing material information. Accordingly, investors should monitor our Investor Relations website, in addition to following our press releases, SEC filings and public conference calls and webcasts.

Information contained on or accessible through any website reference herein is not part of, or incorporated by reference in, this Annual Report on Form 10-K, and the inclusion of such website addresses in this Annual Report on Form 10-K is as inactive textual references only.

Item 1A. Risk Factors

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider the risks and uncertainties described below, as well as the other information in this Form 10-K, including our accompanying consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The occurrence of any of the events or developments described below, or of additional risks and uncertainties not presently known to us or that we currently deem immaterial, could materially and adversely affect our business, results of operations, financial condition and growth prospects. In such an event, the market price of our Class A common stock could decline and you could lose all or part of your investment.

Risk Factors Summary

An investment in our common stock involves a high degree of risk, and the following is a summary of key risk factors when considering an investment. You should read the summary risks together with the more detailed discussion of risks set forth following this section under the heading "Risk Factors," as well as elsewhere in this Annual Report on Form 10-K. Additional risks, beyond those summarized below or discussed elsewhere in this Annual Report on Form 10-K, may apply to our activities or operations as currently conducted or as we may conduct them in the future or in the markets in which we operate or may in the future operate.

Risks Related to Our Business and Industry

- The ongoing COVID-19 pandemic, or other pandemics or natural disasters, or catastrophic events, could adversely impact our business, financial condition, operating results and cash flows.
- If we are unable to attract new customers and expand sales to existing customers on a cost-effective basis, our revenue growth could be slower than we expect and our business would be adversely affected.
- We have a history of net losses and anticipate continuing to incur losses for the near- and mid-term future and may not achieve or sustain profitability.
- Our ability to grow our revenues and achieve and sustain profitability will depend, in part, on our ability to expand our direct sales force and increase productivity of our sales force.
- If we are unable to effectively compete in the market for our solutions or such markets develop slower than we expect our business, operating results, and financial condition would be adversely affected.
- Our success depends in large part on a limited number of products, and if these offerings fail to gain market acceptance or our product development efforts are unsuccessful, our business, operating results, and financial condition could be adversely affected.
- Our operating results, which are influenced by a variety of factors, have fluctuated in the past and may continue to fluctuate, making our future results difficult to predict accurately.
- If we are not able to successfully and timely develop, enhance and deploy our products, our business, operating results, financial condition and growth prospects could be adversely affected.
- If we are unable to recruit or retain senior management or other key personnel, our business, operating results, and financial condition could be adversely affected.
- If we are unable to successfully execute our strategic initiatives, such as increasing our sales to large enterprise customers and expanding and strengthening our sales channels and relationships with system integrators, our business, operating results and financial condition could be adversely affected. If we are unable to manage our growth effectively, our revenue and profits could be adversely affected.
- Our current international operations, and any further expansion of such operations, expose us to risks that could have a material adverse effect on our business, operating results, and financial condition.

- If we fail to integrate our solution with a variety of systems, applications and platforms that are developed by others, our solution may become less marketable, less competitive, or obsolete, and our operating results may be adversely affected.
- We may be unable to integrate businesses we have or will acquire or to achieve expected benefits of such acquisitions.

Risks Related to Information Technology, Intellectual Property, and Data Security and Privacy

- A cyber-attack, information security breach or denial of service event could delay or interrupt service to our customers, harm our reputation, or subject us to significant liability.
- Any disruptions of service from our third-party data centers could interrupt or delay our ability to deliver our services to our customers, which could harm our business and our financial results.
- Failure to protect our intellectual property could adversely affect our business.

Risks Related to Legal, Regulatory, Accounting, and Tax Matters

- Current and future litigation, including our current shareholder litigation, could have a material adverse impact on our operating results and financial condition.
- We may require additional capital to fund our business and support our growth, and any inability to generate or obtain such capital may adversely affect our operating results and financial condition.

Risks Related to Ownership of Our Class A Common Stock

- The market price of our Class A common stock has been, and will likely continue to be, volatile, and you could lose all or part of the value of your investment.
- The dual class structure of our common stock has the effect of concentrating voting control with holders of our Class B common stock, including our directors and executive officers, and their affiliates, which limits or precludes your ability to influence corporate matters, including the election of directors and the approval of any change of control transaction.

Risks Related to Our Business and Industry

The ongoing COVID-19 pandemic could adversely affect our business, financial condition, results of operations, and cash flows.

The ongoing COVID-19 pandemic has resulted in widespread disruptions across the United States and the world and is impacting worldwide economic activity and financial markets. In light of the uncertain and evolving situation relating to the spread of the disease, we have taken precautionary measures intended to minimize the risk of the virus to our employees, our customers and the communities in which we operate, which could negatively impact our business. Like many companies, including our customers and prospects, most of our employees are working from home, we have limited all non-essential business travel, have shifted certain of our customer events to virtual-only experiences and we may deem it advisable to continue to alter, postpone or cancel customer, employee or industry events in the future. We have modified certain other business practices to conform to government restrictions and best practices encouraged by government and regulatory authorities and such measures could negatively impact our business.

The ongoing effects of the COVID-19 pandemic and the precautionary measures that we have adopted have resulted in, and could continue to result in, customers not purchasing or renewing our products or services, a significant delay or lengthening of our sales cycles, a negative impact to our customer success and sales and marketing efforts, difficulties or changes to our customer support, or potential operational or other challenges, any of which could harm our business and operating results. We continue to monitor the situation and may adjust our current policies as more information and public health guidance become available. In certain customer segments that have been more severely impacted by the COVID-19 pandemic such as small- and medium-sized businesses and certain industries like hospitality and travel, we have experienced, and may continue to experience, a reduced ability or willingness to purchase our solutions, delayed purchasing decisions or project implementation timing of prospective customers, reduced value or duration of subscription contracts, or a negative impact to attrition rates. Such disruptions have resulted, and may continue to result, in requests from customers for payment or pricing concessions, such as in the form of extended payment terms or restructuring of contracts, impacts to our quarterly billings, and in customers limiting their spending, which, in certain cases, have resulted in customers not purchasing

or renewing our products or services. Historically, a significant portion of our field sales and professional services have been conducted in person. Currently, as a result of the work and travel restrictions related to the COVID-19 pandemic, substantially all of our sales and professional services activities are being conducted remotely. If the impact of the COVID-19 pandemic deepens or extends into other customer segments, these conditions could further adversely affect the rate of billings and subscription management solutions spending of our customers, our sales cycles could be further extended or delayed, our ability to close transactions with new and existing customers and partners may be negatively impacted, our ability to recognize revenue from software transactions we do close may be negatively impacted due to implementation delays or other factors, our demand generation activities, and the efficiency and effectiveness of those activities, may be negatively affected, and our ability to provide 24x7 worldwide support to our customers may be negatively affected, any of which may make it difficult for us to forecast our sales and operating results and to make decisions about future investments. In addition, our management team has and continues to commit significant time, attention and resources to monitor and mitigate the effects of the COVID-19 pandemic on our business and workforce, which has diverted, and could continue to result in diversions of, management's attention from other business concerns. These and other potential effects on our business due to the COVID-19 pandemic may be significant and could materially harm our business operating results and financial condition.

More generally, the COVID-19 pandemic has had, and could continue to have, an adverse effect on economies and financial markets globally, potentially leading to an economic downturn, which could decrease technology spending and adversely affect demand for our products and services. Any prolonged economic downturn or recession as a result of the COVID-19 pandemic could materially harm the business and operating results of our company and our customers, resulting in potential business closures and layoffs of employees, which effects may continue even after the COVID-19 pandemic is contained. The occurrence of any such events may lead to a reduction in the capital and operating budgets we or our customers have available, which could harm our business, financial condition and operating results. It is not possible at this time to estimate the long-term impact that COVID-19 could have on our business, as the impact will depend on future developments, which are highly uncertain and cannot be predicted.

In early fiscal 2021, the trading prices for our common stock and that of other publicly traded technology companies experienced high volatility as a result of the COVID-19 pandemic. A future recession, depression or other sustained adverse market event resulting from the spread of COVID-19 could materially and adversely affect our business and the value of our common stock.

Because we sell our solutions primarily on a subscription basis, the effect of the pandemic may not be fully reflected in our operating results until future periods. While we have implemented risk mitigation plans and are actively managing recurring expenses, including decreasing costs associated with travel and marketing, delaying certain other non-essential expenditures, and have previously reduced our pace of hiring and prioritized headcount critical to operations and customer-related matters, these measures may not be sufficient to prevent adverse impacts on our business and financial condition from COVID-19. While we believe the initial impacts of the COVID-19 pandemic are behind us, the degree to which the COVID-19 pandemic may impact our business and financial results in the future will depend on further developments, including the severity and the continued duration of the pandemic, and further actions that may be taken by governmental authorities or businesses. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section.

If we are unable to attract new customers and expand sales to existing customers our revenue growth could be slower than we expect, and our business may be adversely affected.

Our ability to achieve significant growth in revenue in the future will depend, in large part, upon our ability to attract new customers. This may be particularly challenging where an organization has already invested substantial personnel and financial resources to integrate billings and other business and financial management tools, including custom-built solutions, into its business, as such an organization may be reluctant or unwilling to invest in new products and services. As a result, selling our solution often requires sophisticated and costly sales efforts that are targeted at senior management. During the fiscal year ended January 31, 2021, sales and marketing expenses represented approximately 38% of our total revenue. If we fail to attract new customers and fail to maintain and expand new customer relationships, our revenue may grow more slowly than we expect and our business may be adversely affected.

Our future revenue growth also depends upon expanding sales and renewals of subscriptions to our solution with existing customers. If our existing customers do not expand their use of our solution over time or do not renew their subscriptions or if we receive requests from an increased number of customers for changes to payment or other terms as a result of the impact of the COVID-19 pandemic on their businesses, our revenue may grow more slowly than expected, may not grow at all, or may decline. Our success, in part, is dependent on our ability to cross-sell our products. If we experience issues with successfully implementing or cross-selling our products, revenue may grow more slowly or may not grow at all.

As the COVID-19 pandemic and economic conditions improve, we expect to continue expanding our sales efforts, both domestically and internationally. However, we may be unable to hire qualified sales personnel, may be unable to successfully train those sales personnel that we are able to hire, and sales personnel may not become fully productive on the timelines that we have projected or at all. In addition, mitigation and containment measures adopted by government authorities to contain the spread of COVID-19 in the United States and internationally, including travel restrictions and other requirements that limit in-person meetings, could limit our ability to establish and maintain relationships with new and existing customers. Further, although we dedicate significant resources to sales and marketing programs, these sales and marketing programs may not have the desired effect and may not expand sales. We cannot assure you that our efforts would result in increased sales to existing customers, and additional revenue. If our efforts to expand sales and renewals to existing customers are not successful, our business and operating results could be adversely affected.

Our customers generally enter into subscription agreements with one- to three-year subscription terms and have no obligation to renew their subscriptions after the expiration of their initial subscription period. Moreover, our customers that do renew their subscriptions may renew for lower subscription or usage amounts or for shorter subscription periods. In addition, in the first year of a subscription, customers often purchase an increased level of professional services (such as training and deployment services) than they do in renewal years. Costs associated with maintaining a professional services department are relatively fixed in the short-term, while professional services revenue is dependent on the amount of billable work actually performed for customers in a period, the combination of which may result in variability in, and have a negative impact on, our gross profit. Customer renewals may decline or fluctuate as a result of a number of factors, including the breadth of early deployment, reductions in our customers' spending levels, higher volumes of usage purchased upfront relative to actual usage during the subscription term, changes in customers' business models and use cases, our customers' satisfaction or dissatisfaction with our solution, our pricing or pricing structure, the pricing or capabilities of products or services offered by our competitors, or the effects of economic conditions, including as a result of the COVID-19 pandemic. If our customers do not renew their agreements with us, or renew on terms less favorable to us, our revenue may decline.

While our hiring slowed due to the impact on the economy of the COVID-19 pandemic, we continue to invest in our growth and expect to increase our rate of such investment as the economy begins to recover. If we fail to manage our growth and expansion plans effectively, our business, operating results, and financial condition could be adversely affected.

While we had experienced rapid growth in our operations and personnel prior to the COVID-19 pandemic, our global hiring slowed in fiscal 2021 in light of the ongoing COVID-19 pandemic. We have increased our rate of hiring and expect to continue to increase our headcount and invest in our expansion as the pandemic and economic conditions improve. If the pandemic conditions worsen or we are not otherwise able to resume our rate of global hiring to pre-pandemic levels within a reasonable period of time, our ability to expand our operations and maintain or increase our sales may be negatively impacted.

To manage growth in our operations and personnel, we will need to continue to improve our operational, financial, and management controls and our reporting systems and procedures, as well as training and experience oversight. Failure to manage growth and expansion plans effectively could result in difficulty or delays in deploying customers, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new products and services or enhancing existing products and services, loss of customers, or other operational difficulties in executing sales strategies, any of which could adversely affect our business performance and operating results.

If the shift by companies to subscription business models, including consumer adoption of products and services that are provided through such models, and, in particular, the market for subscription management software, develops slower than we expect, our growth may slow or stall, and our operating results could be adversely affected.

Our success depends on companies shifting to subscription business models and consumers choosing to consume products and services through such models. Many companies may be unwilling or unable to offer their solutions using a subscription business model, especially if they do not believe that the consumers of their products and services would be receptive to such offerings. Our success will also depend, to a large extent, on the willingness of medium and large businesses that have adopted subscription business models utilizing cloud-based products and services to manage billings and financial accounting relating to their subscriptions. Enterprises may choose not to shift to a subscription business model or, they may choose to shift more slowly than we expect. In addition, those enterprises that do shift to a subscription model may decide that they do not need a solution that offers the range of functionalities that we offer. Many companies have invested substantial effort and financial resources to develop custom-built applications or integrate traditional enterprise software into their businesses as they shift to subscription or subscription business models and may be reluctant or unwilling to switch to different applications. Factors that may affect market acceptance and sales of our products and services include:

- the number of companies shifting to subscription business models;
- the number of consumers and businesses adopting new, flexible ways to consume products and services;
- the security capabilities, reliability, and availability of cloud-based services;
- customer concerns with entrusting a third party to store and manage their data, especially transaction-critical, confidential, or sensitive data;
- our ability to minimize the time and resources required to deploy our solution;
- our ability to achieve and maintain high levels of customer satisfaction;
- our ability to deploy upgrades and other changes to our solution without disruption to our customers;
- the level of customization or configuration we offer;
- the overall level of corporate spending and spending on billing and subscription management solutions by our customers and prospects, including the impact of spending due to the ongoing COVID-19 pandemic;
- general economic conditions, both in domestic and foreign markets, including the continued effects on economic conditions related to the ongoing COVID-19 pandemic; and
- the price, performance, and availability of competing products and services.

The markets for subscription products and services and for subscription management software may not develop further or may develop slower than we expect. If companies do not shift to subscription business models and subscription management software does not achieve widespread adoption, or if there is a reduction in demand for subscription products and services or subscription management software caused by technological challenges, weakening economic conditions, security or privacy concerns, decreases in corporate spending, a lack of customer acceptance, or otherwise, our business could be materially and adversely affected. In addition, our subscription agreements with our customers generally provide for a minimum subscription platform fee and usage-based fees, which depend on the total dollar amount that is invoiced or managed on our solution. Because a portion of our revenue depends on the volume of transactions that our customers process through our solution, if our customers do not adopt our solution throughout their business, if their businesses decline or fail, or if they are unable to successfully shift to subscription business models, including if they fail to successfully deploy our solution, our revenue could decline and our operation results could be adversely impacted.

We have a history of net losses, anticipate increasing our operating expenses in the future, and may not achieve or sustain profitability.

We have incurred net losses in each fiscal year since inception, including net losses of \$73.2 million, \$83.4 million and \$72.7 million million in fiscal 2021, 2020 and 2019, respectively. We expect to incur net losses for the foreseeable future. As of January 31, 2021, we had an accumulated deficit of \$464.0 million. We expect to make

significant future expenditures related to the development and expansion of our business, including increasing our overall customer base, expanding relationships with existing customers, entering new vertical markets, expanding our global footprint, expanding and leveraging our relationships with strategic partners including system integrators to accelerate our growth, optimizing pricing and packaging, and expanding our operations and infrastructure, both domestically and internationally, and in connection with legal, accounting, and other administrative expenses related to operating as a public company. These efforts may prove more expensive than we currently anticipate, and we may not succeed in increasing our revenue sufficiently, or at all, to offset these increased expenses. Some or all of the foregoing initiatives have been and may continue to be temporarily delayed or re-evaluated as part of our efforts to mitigate the ongoing effects of the COVID-19 pandemic on our business, which may negatively affect our ability to expand our operations and maintain or increase our sales. While our revenue has grown in recent years, if our revenue declines or fails to grow at a rate faster than these increases in our operating expenses, we will not be able to achieve and maintain profitability in future periods. As a result, we may continue to generate losses. We cannot assure you that we will achieve profitability in the future or that, if we do become profitable, we will be able to sustain profitability.

Our revenue growth and ability to achieve and sustain profitability will depend, in part, on being able to expand our direct sales force and increase the productivity of our sales force.

To date, most of our revenue has been attributable to the efforts of our direct sales force. In order to increase our revenue and achieve and sustain profitability, we must increase the size of our direct sales force, both in the United States and internationally, to generate additional revenue from new and existing customers. As a result of the COVID-19 pandemic, we may not be able to hire as quickly as planned and it may be more challenging to entice qualified personnel to leave their current positions to join us.

There is also significant competition for sales personnel with the skills and technical knowledge that we require. Because our solution is often sold to large enterprises and involves long sales cycles and complex customer requirements, it is more difficult to find sales personnel with the specific skills and technical knowledge needed to sell our solution and, even if we are able to hire qualified personnel, doing so may be expensive. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training, and retaining sufficient numbers of direct sales personnel to support our growth. Due to the complexities of our customer needs, new sales personnel require significant training and can take a number of months to achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect and if our new sales employees do not become fully productive on the timelines that we have projected or at all, our revenue will not increase at anticipated levels and our ability to achieve long-term projections may be negatively impacted.

We may also be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. Furthermore, hiring sales personnel in new countries requires additional set up and upfront costs that we may not recover if the sales personnel fail to achieve full productivity. In addition, as we continue to grow, a larger percentage of our sales force will be new to our company and our solution, which may adversely affect our sales if we cannot train our sales force quickly or effectively. Attrition rates may increase, and we may also face integration challenges as we continue to seek to expand our sales force. If we are unable to hire and train sufficient numbers of effective sales personnel, if attrition increases, or if the sales personnel are not successful in obtaining new customers or increasing sales to our existing customer base, our business will be adversely affected.

We periodically change and make adjustments to our sales organization in response to market opportunities, competitive threats, management changes, product and service introductions or enhancements, acquisitions, sales performance, increases in sales headcount, cost levels, and other internal and external considerations, including potential changes and uncertainties associated with the ongoing COVID-19 pandemic. Any future changes in our sales organization may result in a temporary reduction of productivity, which could negatively affect our rate of growth. In addition, any significant change to the way we structure our compensation of our sales organization may be disruptive and may affect our revenue growth.

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

The market for subscription management products and services, including our billing and revenue recognition offerings, is highly competitive, rapidly evolving, and fragmented, and subject to changing technology, shifting customer needs, and frequent introductions of new products and services.

Many of our current and potential competitors have longer operating histories, significantly greater financial, technical, marketing, distribution or professional services experience, or other resources or greater name recognition than we do. In addition, many of our current and potential competitors supply a wide variety of products to, and have strong and well-established relationships with, current and potential customers. As a result, our current and potential competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements or devote greater resources than we can to the development, promotion, and sale of their products and services. In addition, some current and potential competitors may offer products or services that address one or a limited number of functions at lower prices or with greater depth than our solution, or integrate or bundle such products and services with their other product offerings. Potential customers may prefer to purchase from their existing suppliers rather than from a new supplier. Our current and potential competitors may develop and market new technologies with comparable functionality to our solution. In addition, because our products and services are integral to our customers' ability to accurately maintain books and records and prepare financial statements, our potential customers may prefer to purchase applications that are critical to their business from one of our larger, more established competitors, or leverage the software that they have already purchased from our competitors for their billing and accounting needs, or control such infrastructure internally. We may experience fewer customer orders, reduced gross margins, longer sales cycles, and loss of market share. This could lead us to decrease prices, implement alternative pricing structures, or introduce products and services available for free or a nominal price in order to remain competitive. We may not be able to compete successfully against current and future competitors, and our business, operating results, and financial condition will be adversely impacted if we fail to meet these competitive pressures.

Our ability to compete successfully in our market depends on a number of factors, both within and outside of our control. Some of these factors include: ease of use; subscription-based product features and functionality; ability to support the specific needs of companies with subscription business models; ability to integrate with other technology infrastructures and third-party applications; enterprise-grade performance and features such as system scalability, security, performance, and resiliency; vision for the market and product innovation; relationships with strategic partners, including system integrators, management consulting firms, and resellers; total cost of ownership; strength of sales and marketing efforts; brand awareness and reputation; and customer experience, including support and professional services. Any failure by us to compete successfully in any one of these or other areas may reduce the demand for our solution, as well as adversely affect our business, operating results, and financial condition.

Moreover, current and future competitors may also make strategic acquisitions or establish cooperative relationships among themselves or with others, including our current or future technology partners. By doing so, these competitors may increase their ability to meet the needs of our customers or potential customers. These developments could limit our ability to obtain revenue from existing and new customers. If we are unable to compete successfully against current and future competitors, our business, operating results, and financial condition could be adversely impacted.

Our success depends in large part on a limited number of products. If these products fail to gain or lose market acceptance, our business will suffer.

We derive substantially all of our revenue and cash flows from sales of subscriptions and associated deployment of our *Zuora Central Platform*, *Zuora Billing*, *Zuora Revenue*, and *Zuora Collect* products. As such, the continued growth in market demand for these products is critical to our success. Demand for our solution is affected by a number of factors, many of which are beyond our control, including macroeconomic factors, such as the impacts of the COVID-19 pandemic on our customers and prospects, the growth or contraction of the Subscription Economy, continued market acceptance of our solution by customers for existing and new use cases, the timing of development and release of new products and services, features, and functionality introduced by our competitors, changes in accounting standards, laws or regulations, policies, guidelines, interpretations, or principles that would impact the functionality and use of our solution, and technological change. We expect that an increasing transition to disaggregated solutions that focus on addressing specific customer use cases would continue to disrupt the enterprise software space, enabling new competitors to emerge. We cannot assure you that our solutions and future enhancements to our solution will be able to address future advances in technology or the requirements of enterprise customers. If we are unable to meet customer demands in creating a flexible solution designed to address all these needs or otherwise achieve more widespread market acceptance of our solution, our business, operating results, financial condition, and growth prospects would be adversely affected.

Our operating results may fluctuate from quarter to quarter, which makes our future results difficult to predict.

Our quarterly operating results have fluctuated in the past and may fluctuate in the future. Additionally, we have a limited operating history with the current scale of our business, which makes it difficult to forecast our future results and subjects us to a number of uncertainties, including our ability to plan for and anticipate future growth. As a result, you should not rely upon our past quarterly operating results as indicators of future performance. We have encountered, and will continue to encounter, risks and uncertainties frequently experienced by growing companies in rapidly evolving markets, such as the risks and uncertainties described herein. Our operating results in any given quarter can be influenced by numerous factors, many of which are unpredictable or are outside of our control, including:

- our ability to maintain and grow our customer base;
- our ability to retain and increase revenue from existing customers;
- our ability to introduce new products and services and enhance existing products and services;
- our ability to integrate or implement our existing products and services on a timely basis or at all;
- our ability to deploy our products successfully within our customers' information technology ecosystems;
- our ability to enter into larger contracts;
- increases or decreases in subscriptions to our platform;
- our ability to sell to large enterprise customers;
- the transaction volume that our customers process through our system;
- our ability to respond to competitive developments, including competitors' pricing changes and their introduction of new products and services;
- changes in the pricing of our products;
- the productivity of our sales force;
- our ability to grow our relationships with strategic partners such as system integrators and their effectiveness in increasing our sales and implementing our products;
- changes in the mix of products and services that our customers use;
- the length and complexity of our sales cycles;
- cost to develop and upgrade our solution to incorporate new technologies;
- seasonal purchasing patterns of our customers;
- impact of outages of our solution and reputational harm;
- costs related to the acquisition of businesses, talent, technologies, or intellectual property, including potentially significant amortization costs and possible write-downs;
- failures or breaches of security or privacy, and the costs associated with responding to and addressing any such failures or breaches;
- foreign exchange fluctuations;
- changes to financial accounting standards and the interpretation of those standards that may affect the way we recognize and report our financial results, including changes in accounting rules governing recognition of revenue;
- the impact of changes to financial accounting standards;
- general economic and political conditions and government regulations in the countries where we currently operate or plan to expand;
- decisions by us to incur additional expenses, such as increases in sales and marketing or research and development;

- the timing of stock-based compensation expense;
- political unrest, changes and uncertainty associated with terrorism, hostilities, war, natural disasters or pandemics, including the ongoing COVID-19 pandemic; and
- potential costs to attract, onboard, retain, and motivate qualified personnel.

The extent to which the global COVID-19 pandemic will continue to impact our business and financial results will depend on future developments, which are uncertain and cannot be fully predicted, including the duration of the pandemic, travel restrictions and social distancing in the United States and other countries, business closures or business disruptions and the effectiveness of actions taken by governments and private businesses to attempt to contain and treat the disease. Any prolonged shutdown of a significant portion of global economic activity or downturn in the global economy, along with any adverse effects on industries in which our customers operate, could materially and adversely impact our business, results of operations and financial condition.

The impact of one or more of the foregoing and other factors may cause our operating results to vary significantly. As such, we believe that quarter-to-quarter comparisons of our operating results may not be meaningful and should not be relied upon as an indication of future performance. If we fail to meet or exceed the expectations of investors or securities analysts, then the trading price of our Class A common stock could fall substantially, and we could face costly lawsuits, including shareholder litigation.

A customer's failure to deploy our solution after it enters into a subscription agreement with us, or the incorrect or improper deployment or use of our solution could result in customer dissatisfaction and negatively affect our business, operating results, financial condition, and growth prospects.

Our solution is deployed in a wide variety of technology environments and into a broad range of complex workflows. We believe our future success will depend in part on our ability to increase both the speed and success of our deployments, by improving our deployment methodology, hiring and training qualified professionals, deepening relationships with deployment partners, and increasing our ability to integrate into large-scale, complex technology environments. We often assist our customers in deploying our solution, either directly or through our deployment partners. In other cases, customers rely on third-party partners to complete the deployment. In some cases, customers initially engage us to deploy our solution, but, for a variety of reasons, including strategic decisions not to utilize subscription business models, fail to ultimately deploy our solution. If we or our third-party partners are unable to deploy our solution successfully, or unable to do so in a timely manner and, as a result, customers do not utilize our solution, we would not be able to generate future revenue from such customers based on transaction or revenue volume and the upsell of additional products and services, and our future operating results could be adversely impacted. In addition, customers may also seek refunds of their initial subscription fee. Moreover, customer perceptions of our solution may be impaired, our reputation and brand may suffer, and customers may choose not to renew or expand their use of our solution.

If we are not able to develop and release new products and services, or successful enhancements, new features, and modifications to our existing products and services, our business could be adversely affected.

The market for our solution, including our billing and revenue recognition offerings, is characterized by rapid technological change, frequent new product and service introductions and enhancements, changing customer demands, and evolving industry standards. The introduction of products and services embodying new technologies can quickly make existing products and services obsolete and unmarketable. Additionally, because we provide billing and finance solutions to help our customers with compliance and financial reporting, changes in law, regulations, and accounting standards could impact the usefulness of our products and services and could necessitate changes or modifications to our products and services to accommodate such changes. Subscription management products and services, including our billing and revenue recognition offerings, are inherently complex, and our ability to develop and release new products and services or enhancements, new features and modifications to our existing products and services depends on several factors, including timely completion, competitive pricing, adequate quality testing, integration with new and existing technologies and our solution, and overall market acceptance. We cannot be sure that we will succeed in developing, marketing, and delivering on a timely and cost-effective basis enhancements or improvements to our platform or any new products and services that respond to continued changes in subscription management practices or new customer requirements, nor can we be sure that any enhancements or improvements to our platform or any new products and services will achieve market acceptance. Since developing our solution is complex, the timetable for the release of new products and

enhancements to existing products is difficult to predict, and we may not offer new products and updates as rapidly as our customers require or expect. Any new products or services that we develop may not be introduced in a timely or cost-effective manner, may contain errors or defects, or may not achieve the broad market acceptance necessary to generate sufficient revenue. The introduction of new products and enhancements could also increase costs associated with customer support and customer success as demand for these services increase. This increase in cost could negatively impact profit margins, including our gross margin. Moreover, even if we introduce new products and services, we may experience a decline in revenue of our existing products and services that is not offset by revenue from the new products or services. For example, customers may delay making purchases of new products and services to permit them to make a more thorough evaluation of these products and services or until industry and marketplace reviews become widely available. Some customers may hesitate to migrate to a new product or service due to concerns regarding the complexity of migration or performance of the new product or service. In addition, we may lose existing customers who choose a competitor's products and services or choose to utilize internally developed applications instead of our products and services. This could result in a temporary or permanent revenue shortfall and adversely affect our business.

In addition, because our products and services are designed to interoperate with a variety of other internal or third-party software products and business systems applications, we will need to continuously modify and enhance our products and services to keep pace with changes in application programming interfaces (APIs), and other software and database technologies. We may not be successful in either developing these new products and services, modifications, and enhancements or in bringing them to market in a timely fashion. There is no assurance that we will successfully resolve such issues in a timely and cost-effective manner. Furthermore, modifications to existing platforms or technologies, including any APIs with which we interoperate, will increase our research and development expenses. Any failure of our products and services to operate effectively with each other or with other platforms and technologies could reduce the demand for our products and services, result in customer dissatisfaction, and adversely affect our business.

Our business depends largely on our ability to attract and retain talented employees, including senior management. If we lose the services of Tien Tzuo, our founder, Chairman, and Chief Executive Officer, or other critical talent across our executive team and in other key roles, we may not be able to execute on our business strategy.

Our future success depends on our continuing ability to attract, train, assimilate, and retain highly skilled personnel, including software engineers, sales personnel, and professional services personnel. We face intense competition for qualified individuals from numerous software and other technology companies. In addition, competition for qualified personnel, particularly software engineers, is particularly intense in the San Francisco Bay Area, where our headquarters is located. We may not be able to retain our current key employees or attract, train, assimilate, or retain other highly skilled personnel in the future. For example, as economic conditions related to the COVID-19 pandemic improve, employees may seek new or different opportunities that offer greater compensation or benefits than we offer or are able to offer, making it difficult to retain them. In addition, we may incur significant costs to attract and retain highly skilled personnel, and we may lose new employees to our competitors or other technology companies before we realize the benefit of our investment in recruiting and training them. As we move into new geographies, we will need to attract and recruit skilled personnel in those areas. If we are unable to attract and retain suitably qualified individuals who are capable of meeting our growing technical, operational, and managerial requirements, on a timely basis or at all, our business may be adversely affected.

Our future success also depends in large part on the continued services of senior management and other key personnel. In particular, we are highly dependent on the services of Tien Tzuo, our founder, Chairman and Chief Executive Officer, who is critical to the development of our technology, platform, future vision, and strategic direction. We rely on our leadership team in the areas of operations, security, marketing, sales, support, and general and administrative functions, and on individual contributors on our research and development team. Our senior management and other key personnel are all employed on an at-will basis, which means that they could terminate their employment with us at any time, for any reason, and without notice. We do not currently maintain key-person life insurance policies on any of our officers or employees. If we lose the services of senior management or other key personnel, or if we are unable to attract, train, assimilate, and retain the highly skilled personnel we need, our business, operating results, and financial condition could be adversely affected.

Volatility or lack of appreciation in our stock price may also affect our ability to attract and retain our key employees. Many of our senior personnel and other key employees have become, or will soon become, vested in a substantial amount of stock or stock options. Employees may be more likely to leave us if the shares they own or

the shares underlying their vested options have significantly appreciated in value relative to the original purchase price of the shares or the exercise price of the options, or conversely, if the exercise price of the options that they hold are significantly above the market price of our Class A common stock. If we are unable to retain our employees, or if we need to increase our compensation expenses to retain our employees, our business, results of operations, financial condition, and cash flows could be adversely affected.

Our corporate “ZEO” culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity, and teamwork fostered by our culture, and our business may be harmed.

We believe that our entrepreneurial corporate culture has been a key contributor to our success. We have worked to develop what we call our “ZEO” culture, which is based on the idea that each employee is the CEO of their job and career, and we strive to empower every employee to make and own their decisions and contributions to the company. As a result of the COVID-19 pandemic, nearly all of our employees have been working remotely, which can create additional obligations and difficulties for certain employees and could negatively impact our corporate culture. If we do not continue to develop our corporate culture as we grow and evolve, including maintaining a culture that encourages individual entrepreneurship by our employees, it could harm our ability to foster the innovation, creativity, and teamwork we believe that we need to support our growth. Further, as our organization grows and we are required to implement more complex organizational structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture, which could negatively impact our future success.

As a substantial portion of our sales efforts are increasingly targeted at large enterprise customers, our sales cycle may become longer and more expensive, we may encounter still greater pricing pressure and deployment and customization challenges, and we may have to delay revenue recognition for more complicated transactions, all of which could adversely impact our business and operating results.

As a substantial portion of our sales efforts are increasingly targeted at large enterprise customers, we may face greater costs, longer sales cycles, and less predictability in the completion of some of our sales. In this market segment, the customer’s decision to use our solution may be an enterprise-wide decision, in which case these types of sales frequently require approvals by multiple departments and executive-level personnel and require us to provide greater levels of customer education regarding the uses and benefits of our solution, as well as education regarding security, privacy, and scalability of our solution, especially for those large “business to consumer” customers or those with extensive international operations. These large enterprise transactions might also be part of a customer’s broader business model or business systems transformation project, which are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing, security review, and other delays that could further lengthen the sales cycle. Larger enterprises typically have longer decision-making and deployment cycles, may have greater resources to develop and maintain customized tools and applications, demand more customization, require greater functionality and scalability, expect a broader range of services, demand that vendors take on a larger share of risks, demand increased levels of customer service and support, require acceptance provisions that can lead to a delay in revenue recognition, and expect greater payment flexibility from vendors. We are often required to spend time and resources to better familiarize potential customers with the value proposition of our solution. As a result of these factors, sales opportunities with large enterprises may require us to devote greater sales and administrative support and professional services resources to individual customers, which could increase our costs, lengthen our sales cycle, and divert our own sales and professional services resources to a smaller number of larger customers. We may spend substantial time, effort, and money in our sales, design and implementation efforts without being successful in producing any sales or deploying our products in such a way that is satisfactory to our customers. All these factors can add further risk to business conducted with these customers. In addition, if sales expected from a large customer for a particular quarter are not realized in that quarter or at all, our business, operating results, and financial condition could be materially and adversely affected.

Furthermore, our sales and implementation cycles could be interrupted or affected by other factors outside of our control. For example, as a result of the COVID-19 pandemic, many large enterprises have generally reduced or delayed technology or other discretionary spending, which may materially and negatively impact our operating results, financial condition and prospects. Like many other companies, including our customers and prospects, our employees are working from home and we have limited all non-essential business travel. Restrictions on travel and in-person meetings could affect services delivery, delay implementations, and interrupt sales activity and we cannot predict whether, for how long, or the extent to which the COVID-19 pandemic may adversely affect our business, results of operations, and financial condition.

If we are unable to grow our sales channels and our relationships with strategic partners, such as system integrators, management consulting firms, and resellers, sales of our products and services may suffer and our growth could be slower than we project.

In addition to our direct sales force, we use strategic partners, such as system integrators, management consulting firms, and resellers, to market, sell, and implement our solution. Historically, we have used these strategic partners to a limited degree, but we are prioritizing efforts to make these partners an increasingly important aspect of our business particularly with regard to enterprise and international sales and larger implementations of our products where these partners may have more expertise and established business relationships than we do. We have been and expect to continue to transition a portion of our professional services implementations to these strategic partners, and as a result we expect our professional services revenue as an overall percentage of Zuora's total revenue to continue to decline over time. Our relationships with these strategic partners are still at an early stage of development. We have generated limited revenue through these relationships to date, and we cannot assure you that these partners will be successful in marketing, selling or implementing our solution. Identifying these partners, negotiating and supporting relationships with them, including training them in how to sell or deploy our solution, and maintaining these relationships requires significant commitment of time and resources that may not yield a significant return on our investment in these relationships. Our future growth in revenue and ability to achieve and sustain profitability depends in part on our ability to identify, establish, and retain successful strategic partner relationships in the United States and internationally, which will take significant time and resources and involve significant risk. If we are unable to establish and maintain our relationships with these partners, or otherwise develop and expand our indirect distribution channel, our business, operating results, financial condition, or cash flows could be adversely affected.

We also cannot be certain that we will be able to maintain successful relationships with any strategic partners and, to the extent that our strategic partners are unsuccessful in marketing, selling, or implementing our solution, our business, operating results, and financial condition could be adversely affected. Our strategic partners may market to our customers the products and services of several different companies, including products and services that compete with our solution. Because our strategic partners do not have an exclusive relationship with us, we cannot be certain that they will prioritize or provide adequate resources to marketing our solution. Moreover, divergence in strategy by any of these partners may materially adversely affect our ability to develop, market, sell, or support our solution. We cannot assure you that our strategic partners will continue to cooperate with us. In addition, actions taken or omitted to be taken by such parties may adversely affect us. We are unable to control the quantity or quality of resources that our systems integrator partners commit to deploying our products and services, or the quality or timeliness of such deployment. If our partners do not commit sufficient or qualified resources to these activities, our customers will be less satisfied, be less supportive with references, or may require the investment of our resources at discounted rates. These, and other failures by our partners to successfully deploy our products and services, may have an adverse effect on our business and our operating results.

Our growth forecasts we have provided publicly may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth, we cannot assure that our business will grow at similar rates, if at all.

Growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The forecasts we have provided publicly relating to the expected growth in the subscription billing and revenue recognition industry and ERP software market may prove to be inaccurate. Even if these markets experience the forecasted growth, we may not grow our business at similar rates, or at all. Our growth is subject to many factors, including our success in executing our business strategy, which is subject to many risks and uncertainties. Accordingly, the forecasts of market growth we have provided publicly should not be taken as indicative of our future growth.

As a result of the continuing impact and duration of the COVID-19 pandemic, many of our estimates and assumptions require increased judgment and carry 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 and actual results could differ materially from those estimates.

Our long-term success depends, in part, on our ability to expand the sales of our solution to customers located outside of the United States. Our current international operations, and any further expansion of those operations, expose us to risks that could have a material adverse effect on our business, operating results, and financial condition.

We have been recognizing increased revenue from international sales, and we conduct our business activities in various foreign countries. We currently have operations in North America, Europe, Asia, and Australia. During the fiscal year ended January 31, 2021, we derived approximately 34% of our total revenue from customers located outside the United States. Our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple cultures, customs, legal systems, regulatory systems, and commercial infrastructures. International expansion will require us to invest significant funds and other resources. Our operations in international markets may not develop at a rate that supports our level of investment. Expanding internationally may subject us to new risks that we have not faced before or increase risks that we currently face, including risks associated with:

- recruiting and retaining talented and capable employees in foreign countries;
- providing our solution to customers from different cultures, which may require us to adapt to sales practices, modify our solution, and provide features necessary to effectively serve the local market;
- compliance with multiple, conflicting, ambiguous or evolving governmental laws and regulations and court decisions, including those relating to employment matters, e-invoicing, consumer protection, privacy, data protection, information security, and encryption;
- longer sales cycles in some countries;
- increased third-party costs relating to data centers outside of the United States;
- generally longer payment cycles and greater difficulty in collecting accounts receivable;
- credit risk and higher levels of payment fraud;
- weaker privacy and intellectual property protection in some countries, including China and India;
- compliance with anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act of 1977, as amended (FCPA), and the UK Bribery Act 2010 (UK Bribery Act);
- currency exchange rate fluctuations;
- tariffs, export and import restrictions, restrictions on foreign investments, sanctions, and other trade barriers or protection measures;
- foreign exchange controls that might prevent us from repatriating cash earned outside the United States;
- economic or political instability in countries where we may operate, including the potential effects of Brexit and the ongoing COVID-19 pandemic;
- corporate espionage;
- compliance with the laws of numerous taxing jurisdictions, both foreign and domestic, in which we conduct business, potential double taxation of our international earnings, and potentially adverse tax consequences due to changes in applicable U.S. and foreign tax laws;
- continuing uncertainty regarding social, political, immigration, and tax and trade policies in the U.S. and abroad;
- increased costs to establish and maintain effective controls at foreign locations; and
- overall higher costs of doing business internationally.

If we fail to offer high-quality customer support, our business and reputation will suffer.

Once our solution is deployed to our customers, our customers rely on our support services to resolve any related issues. High-quality customer education and customer support is important for the successful marketing and sale of our products and for the renewal of existing customers. The importance of high-quality customer support will increase as we expand our business and pursue new enterprises. If we do not help our customers quickly resolve post-deployment issues, including configuring and using features, and provide them with effective ongoing customer support, our ability to upsell additional products to existing customers could suffer and our reputation with existing or potential customers could be harmed.

Our customers and third-party partners often need training in the proper use of our solution to maximize its potential. If our solution is not deployed or used correctly or as intended, inadequate performance may result.

Because our customers rely on our solution to manage a wide range of subscription management operations, the incorrect or improper deployment or use of our solution, our failure to train customers on how to efficiently and effectively use our solution, or our failure to provide adequate support to our customers, may result in customers not renewing their subscriptions, customers reducing their use of our solution, negative publicity, or legal claims against us. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for additional subscriptions to our solution.

Future changes in market conditions or customer demand could require changes to our prices or pricing model, which could adversely affect our business, operating results, and financial condition.

We generally charge our customers a flat fee for their use of our platform and a variable fee based on the amount of transaction volume they process through our system. If our customers do not increase their transaction volume, or an economic downturn reduces their transaction volume, our revenue may be adversely impacted by customers reducing their contracted transaction volume. We have limited experience with respect to determining the optimal prices for our platform, and, as a result, we have in the past needed to and expect in the future to need to change our pricing model from time to time. As the market for our platform matures, or as new competitors introduce new products or services that compete with ours, we may be unable to attract new customers at the same price or based on the same pricing models as we have used historically. We may experience pressure to change our pricing model to defer fees until our customers have fully deployed our solution. Moreover, larger organizations, which comprise a large and growing component of our sales efforts, may demand substantial price concessions. As a result, in the future we may be required to reduce our prices or change our pricing model, which could adversely affect our revenue, gross margin, profitability, financial position, and cash flow.

If we fail to integrate our solution with a variety of operating systems, software applications, and hardware platforms that are developed by others, our solution may become less marketable, less competitive, or obsolete, and our operating results may be adversely affected.

Our solution must integrate with a variety of network, hardware, and software platforms, and we need to continuously modify and enhance our solution to adapt to changes in cloud-enabled hardware, software, networking, browser, and database technologies. We have developed our solution to be able to integrate with third-party SaaS applications, including the applications of software providers that compete with us, through the use of APIs. For example, *Zuora CPQ* integrates with certain capabilities of Salesforce using publicly available APIs. In general, we rely on the fact that the providers of such software systems, including Salesforce, continue to allow us access to their APIs to enable these integrations, and the terms with such companies may be subject to change from time to time. We also integrate certain aspects of our solution with other platform providers. Any change or deterioration in our relationship with any platform provider may adversely impact our business and operating results.

Our business may be adversely impacted if any platform provider:

- discontinues or limits access to its APIs by us;
- makes changes to its platform;
- terminates or does not allow us to renew or replace our contractual relationship;

- modifies its terms of service or other policies, including fees charged to, or other restrictions on, us or other application developers, or changes how customer information is accessed by us or our customers;
- establishes more favorable relationships with one or more of our competitors, or acquires one or more of our competitors or is acquired by a competitor and offers competing services to us; or
- otherwise develops its own competitive offerings.

In addition, we have benefited from these platform providers' brand recognition, reputations, and customer bases. Any losses or shifts in the market position of these platform providers in general, in relation to one another or to new competitors or new technologies could lead to losses in our relationships or customers, or to our need to identify or transition to alternative channels for marketing our solutions. Such changes could consume substantial resources and may not be effective. If we are unable to respond to changes in a cost-effective manner, our solution may become less marketable, less competitive, or obsolete and our operating results may be negatively impacted.

If we fail to develop, maintain, and enhance our brand and reputation cost-effectively, our business and financial condition may be adversely affected.

We believe that developing, maintaining, and enhancing awareness and integrity of our brand and reputation in a cost-effective manner are important to achieving widespread acceptance of our solution and are important elements in attracting new customers and maintaining existing customers. We believe that the importance of our brand and reputation will increase as competition in our market further intensifies. Successful promotion of our brand and the Subscription Economy concept will depend on the effectiveness of our marketing efforts, our ability to provide a reliable and useful solution at competitive prices, the perceived value of our solution, and our ability to provide quality customer support. In addition, the promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive, as we expand into new markets, and as more sales are generated through our strategic partners. Brand promotion activities may not yield increased revenue, and even if they do, the increased revenue may not offset the expenses we incur in building and maintaining our brand and reputation. We also rely on our customer base and community of end-users in a variety of ways, including to give us feedback on our solution and to provide user-based support to our other customers. If we fail to promote and maintain our brand successfully or to maintain loyalty among our customers, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract new customers and partners or retain our existing customers and partners and our business and financial condition may be adversely affected. Any negative publicity relating to our customers, employees, partners, or others associated with these parties, may also tarnish our own reputation simply by association and may reduce the value of our brand. Damage to our brand and reputation may result in reduced demand for our solution and increased risk of losing market share to our competitors. Any efforts to restore the value of our brand and rebuild our reputation may be costly and may not be successful.

We employ third-party licensed software for use in or with our software, and the inability to maintain these licenses or errors in the software we license could result in increased costs or reduced service levels, which could adversely affect our business.

Our software incorporates certain third-party software obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools from third parties in the future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, including open source software, this may not always be the case, or it may be difficult or costly to migrate to other third-party software. Our use of additional or alternative third-party software would require us to enter into license agreements with third parties. In addition, integration of our software with new third-party software may require significant work and require substantial investment of our time and resources. Also, any undetected or uncorrected errors or defects in third-party software could prevent the deployment or impair the functionality of our software, present security risks, delay new updates or enhancements to our solution, result in a failure of our solution, and injure our reputation.

We may be unable to integrate acquired businesses and technologies successfully or to achieve the expected benefits of such acquisitions. We may acquire or invest in additional companies, which may divert our management's attention, result in additional dilution to our stockholders, and consume resources that are necessary to sustain our business.

Our business strategy may, from time to time, include acquiring other complementary products, technologies, or businesses. An acquisition, investment, or business relationship may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel, or operations of the acquired companies, particularly if the key personnel of the acquired companies choose not to work for us, if an acquired company's software is not easily adapted to work with ours, or if we have difficulty retaining the customers of any acquired business due to changes in management or otherwise.

Acquisitions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for development of our business. Moreover, the anticipated benefits of any acquisition, investment, or business relationship may not be realized or we may be exposed to unknown liabilities. We may in the future seek to acquire or invest in additional businesses, products, technologies, or other assets. We also may enter into relationships with other businesses to expand our products and services or our ability to provide our products and services in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing, or investments in other companies. Negotiating these transactions can be time consuming, difficult, and expensive, and our ability to close these transactions may often be subject to approvals that are beyond our control. Consequently, these transactions, even if undertaken and announced, may not close. For one or more of those transactions, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur large charges or substantial liabilities;
- encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; and
- become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges.

Any of these risks could adversely impact our business and operating results.

Certain of our operating results and financial metrics may be difficult to predict as a result of seasonality.

Although we have not historically experienced significant seasonality with respect to our subscription revenue throughout the year, we have seen seasonality in our sales cycle as a large percentage of our customers make their purchases in the third month of any given quarter. In addition, our fourth quarter has historically been our strongest quarter. We believe that this results in part from the procurement, budgeting, and deployment cycles of many of our customers. We generally expect a relative increase in sales in the second half of each year as budgets of our customers for annual capital purchases are being fully utilized. We may be affected by seasonal trends in the future, particularly as our business matures. Such seasonality may result from a number of factors, including a slowdown in our customers' procurement process during certain times of the year, both domestically and internationally, and customers choosing to spend remaining budgets shortly before the end of their fiscal years. These effects may become more pronounced as we target larger organizations and their larger budgets for sales of our solution. Additionally, this seasonality may be reflected to a much lesser extent, and sometimes may not be immediately apparent, in our revenue, due to the fact that we recognize subscription revenue over the term of the applicable subscription agreement. In addition, our ability to record professional services revenue can potentially vary based on the number of billable days in the given quarter, which is impacted by holidays and vacations. To the extent we experience this seasonality, it may cause fluctuations in our operating results and financial metrics and make forecasting our future operating results and financial metrics more difficult.

Our Debt Agreement provides our lender with a first-priority lien against substantially all of our assets, and contains financial covenants and other restrictions on our actions, which could limit our operational flexibility and otherwise adversely affect our financial condition.

Our Debt Agreement restricts our ability to, among other things:

- use our accounts receivable, inventory, trademarks, and most of our other assets as security in other borrowings or transactions;
- incur additional indebtedness;
- sell certain assets;
- declare dividends or make certain distributions; and
- undergo a merger or consolidation or other transactions.

Our Debt Agreement also prohibits us from exceeding certain adjusted quick ratios. Our ability to comply with these and other covenants is dependent upon a number of factors, some of which are beyond our control.

Our failure to comply with the covenants or payment requirements, or the occurrence of other events specified in our Debt Agreement could result in an event of default under the Debt Agreement which would give our lender the right to terminate their commitments to provide additional loans under the Debt Agreement and to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, we have granted our lender first-priority liens against substantially all of our assets as collateral, and have pledged not to encumber or otherwise grant any security interest in our intellectual property. Failure to comply with the covenants or other restrictions in the Debt Agreement could result in a default. If the debt under our Debt Agreement was to be accelerated, we may not have sufficient cash on hand or be able to sell sufficient collateral to repay it, which would have an immediate adverse effect on our business and operating results.

Risks Related to Information Technology, Intellectual Property, and Data Security and Privacy

If our security measures are breached, if unauthorized access to customer data, our data, or our solution is otherwise obtained, or if our solution is perceived as not being secure, customers may reduce the use of or stop using our solution, we may have difficulty attracting customers, and we may incur significant liabilities.

We have in the past experienced security incidents and breaches and may in the future experience additional security incidents or breaches. Security breaches and other security incidents could result in the loss of information, disruption of services, litigation, indemnity obligations, penalties, and other liability. If our security measures or those of our service providers are breached, or are perceived to have been breached, as a result of third-party action, including cyber-attacks or other intentional misconduct by computer hackers, employee error, malfeasance, or otherwise, and someone obtains unauthorized access to our data or other data we or our service providers maintain, including sensitive customer data, personal information, intellectual property, and other confidential business information, we could face loss of business, lawsuits or claims, regulatory investigations, or orders, and our reputation could be severely damaged. We, and our third-party partners, have security measures and disaster response plans in place to help protect our customers' data, our own data and information, and our platform, networks, and other systems against unauthorized access or inadvertent exposure. However, we cannot assure that these security measures and disaster response plans will be effective against all security threats and natural disasters. System failures or outages, including any potential disruptions due to significantly increased global demand on certain cloud-based systems during the COVID-19 pandemic, could compromise our ability to perform our day-to-day operations in a timely manner, which could negatively impact our business or delay our financial reporting. Such failures could materially adversely affect our operating results and financial condition.

The COVID-19 pandemic is generally increasing the attack surface available for exploitation, as more companies and individuals work online and work remotely, and as such, the risk of a cybersecurity incident potentially occurring, and our investment in risk mitigations against such an incident, is increasing. For example, there has been an increase in phishing and spam emails as well as social engineering attempts from "hackers" hoping to use the recent COVID-19 pandemic to their advantage. Although the security incidents and breaches that we have experienced to date have not had a material effect on our business, there is no assurance that our security

systems or processes will prevent or mitigate more serious break-ins, tampering, security incidents or breaches or other cyber-attacks that could occur in the future.

If we experience a security incident or breach, we could be required to expend significant capital and other resources to alleviate the problem, as well as incur significant costs and liabilities, including due to litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, and costs for remediation and incentives offered to affected parties, including customers, other business partners and employees, in an effort to maintain business relationships after a breach or other incident. Moreover, if our solution is perceived as not being secure, regardless of whether our security measures are actually breached, we could suffer harm to our reputation, and our operating results could be negatively impacted.

We cannot assure you that any limitations of liability provisions in our contracts would be enforceable or adequate or would otherwise protect us from any liabilities or damages with respect to any particular claim relating to a security breach or other security-related matters. We also cannot be sure that our existing insurance coverage will continue to be available on acceptable terms or will be available in sufficient scope or amounts to cover one or more large claims related to a security incident or breach, 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 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 have a material adverse effect on our business, including our financial condition, operating results, and reputation.

Cyber-attacks and other malicious Internet-based activities continue to increase generally. Because the techniques used to obtain unauthorized access to or sabotage systems change frequently and generally are not identified until they are launched against a target, we and our service providers may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, third parties may attempt to fraudulently induce employees, contractors, or users to disclose information to gain access to our data or our customers' data. We could suffer significant damage to our brand and reputation if a cyber-attack or other security incident were to allow unauthorized access to or modification of our customers' data, other external data, or our own data or our IT systems or if the services we provide to our customers were disrupted, or if our solution is perceived as having security vulnerabilities. Customers could lose confidence in the security and reliability of our solution and perceive them to be not secure. This could lead to fewer customers using our products and services and result in reduced revenue and earnings. The costs we would incur to address and respond to these security incidents, and to prevent them thereafter, would increase our expenses. These types of security incidents could also lead to lawsuits, regulatory investigations and claims, and increased legal liability, including in some cases costs related to notification of the incident and fraud monitoring.

In addition, while a majority of our employees are based in the United States, like many similarly situated technology companies, we have a sizable number of research and development and other personnel located outside the United States, including 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 actual or perceived security compromise could reduce customer confidence in the effectiveness of our security measures, negatively affect our ability to attract new customers, and cause existing customers to reduce the use or stop using our solution, any of which could harm our business and reputation.

Errors, defects, or disruptions in our solution could diminish demand, harm our financial results, and subject us to liability.

Our customers use our products for important aspects of their businesses, and any errors, defects, or disruptions to our solution, or other performance problems with our solution could harm our brand and reputation and may damage our customers' businesses. We are also reliant on third-party software and infrastructure, including the infrastructure of the Internet, to provide our products and services. Any failure of or disruption to this software and infrastructure could also make our solution unavailable to our customers. Our solution is constantly changing with new software releases, which may contain undetected errors when first introduced or released. Any errors, defects, disruptions in service, or other performance problems with our solution could result in negative publicity, loss of or delay in market acceptance of our products, loss of competitive position, delay of payment to us, lower renewal rates, or claims by customers for losses sustained by them. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the

problem. Accordingly, any errors, defects, or disruptions to our solution could adversely impact our brand and reputation, revenue, and operating results.

In addition, because our products and services are designed to interoperate with a variety of internal and third-party systems and infrastructures, we need to continuously modify and enhance our products and services to keep pace with changes in software technologies. We may not be successful in either developing these modifications and enhancements or resolving interoperability issues in a timely and cost-effective manner. Any failure of our products and services to continue to operate effectively with internal or third-party infrastructures and technologies could reduce the demand for our products and services, resulting in dissatisfaction of our customers, and may materially and adversely affect our business.

Any disruption of service at our third-party data center or Amazon Web Services could interrupt or delay our ability to deliver our services to our customers, which could harm our business and our financial results.

We currently host our solution, serve our customers, and support our operations in the United States primarily from a third-party Las Vegas-based data center and using Amazon Web Services (AWS), a provider of cloud infrastructure services. As part of our current disaster recovery arrangements, our customer data in the Las Vegas-based data center production environment is replicated to an AWS data center outside of the U.S. West Coast. Additionally, in Europe, we host our solution using AWS. We are also in the process of transitioning the hosting of a portion of our U.S. solution infrastructure to AWS, which may be more expensive than our current data center provider. Despite precautions, we may also experience planned and unplanned costs, interruptions, delays, and outages in service or other performance problems in connection with such transitions. We also do not have control over the operations of the facilities of our data center provider or AWS. These facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cyber security attacks, terrorist attacks, power losses, telecommunications failures, and similar events. The occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice, or other unanticipated problems could result in lengthy interruptions in our solution. In addition, the ongoing COVID-19 pandemic could potentially disrupt the supply chain of hardware needed to maintain these third-party systems or to run our business. The facilities also could be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism, and other misconduct.

Our solution's continuing and uninterrupted performance is critical to our success. Because our products and services are used by our customers for billing and financial accounting purposes, it is critical that our solution be accessible without interruption or degradation of performance, and we typically provide our customers with service level commitments with respect to service uptime. Customers may become dissatisfied by any system failure that interrupts our ability to provide our solution to them. Outages could lead to the triggering of our service level agreements and the issuance of credits to our customers, in which case, we may not be fully indemnified for such losses by our third party data center provider or AWS. We may not be able to easily switch our current data center provider or AWS operations to another cloud provider if there are disruptions or interference with our use of either facility. Sustained or repeated system failures would reduce the attractiveness of our solution to customers and result in contract terminations, thereby reducing revenue. Moreover, negative publicity arising from these types of disruptions could damage our reputation and may adversely impact use of our solution. We may not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any events that cause interruptions in our service.

Neither our third-party data center provider nor AWS has an obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew our agreements with these providers on commercially reasonable terms, if our agreements with our providers are prematurely terminated, or if in the future we add additional data center providers, we may experience additional costs or service downtime in connection with the transfer to, or the addition of, new data center providers. If these providers were to increase the cost of their services, we may have to increase the price of our solution, and our operating results may be adversely impacted.

Failure to protect our intellectual property could adversely affect our business.

Our success depends in large part on our proprietary technology. We rely on various intellectual property (IP) rights, including patents, copyrights, trademarks, and trade secrets, as well as confidentiality provisions and contractual arrangements, to protect our proprietary rights. If we do not protect and enforce our intellectual property rights successfully, our competitive position may suffer, which could adversely impact our operating results.

Our pending patent or trademark applications may not be allowed, or competitors may challenge the validity, enforceability or scope of our patents, copyrights, trademarks or the trade secret status of our proprietary information. There can be no assurance that additional patents will be issued or that any patents that are issued will provide significant protection for our intellectual property. There is also no assurance that we will be able to register trademarks that are critical to our business. In addition, our patents, copyrights, trademarks, trade secrets, and other intellectual property rights may not provide us a significant competitive advantage. There is no assurance that the particular forms of intellectual property protection that we seek, including business decisions about when to file patents and when to maintain trade secrets, will be adequate to protect our business.

Moreover U.S. patent law, developing jurisprudence regarding U.S. patent law, and possible future changes to U.S. or foreign patent laws and regulations may affect our ability to protect and enforce our intellectual property rights. In addition, the laws of some countries do not provide the same level of protection of our intellectual property as do the laws of the United States. As we expand our international activities, our exposure to unauthorized copying and use of our solution and proprietary information will likely increase. Despite our precautions, our intellectual property is vulnerable to unauthorized access through employee error or actions, theft, and cybersecurity incidents, and other security breaches. It may be possible for third parties to infringe upon or misappropriate our intellectual property, to copy our solution, and to use information that we regard as proprietary to create products and services that compete with ours. Effective intellectual property protection may not be available to us in every country in which our solution is available. For example, some foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. In addition, many countries limit the enforceability of patents against certain third parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit. We may need to expend additional resources to defend our intellectual property rights domestically or internationally, which could impair our business or adversely affect our domestic or international expansion. Moreover, we may not pursue or file patent applications or apply for registration of copyrights or trademarks in the United States and foreign jurisdictions in which we operate with respect to our potentially patentable inventions, works of authorship, marks and logos for a variety of reasons, including the cost of procuring such rights and the uncertainty involved in obtaining adequate protection from such applications and registrations. If we cannot adequately protect and defend our intellectual property, we may not remain competitive, and our business, operating results, and financial condition may be adversely affected.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with other parties. We cannot assure you that these agreements will be effective in controlling access to, use of, and distribution of our proprietary information or in effectively securing exclusive ownership of intellectual property developed by our current or former employees and consultants. Further, these agreements may not prevent other parties from independently developing technologies that are substantially equivalent or superior to our solution.

We may need to spend significant resources securing and monitoring our intellectual property rights, and we may or may not be able to detect infringement by third parties. Our competitive position may be harmed if we cannot detect infringement and enforce our intellectual property rights quickly or at all. In some circumstances, we may choose to not pursue enforcement because an infringer has a dominant intellectual property position or for other business reasons. In addition, competitors might avoid infringement by designing around our intellectual property rights or by developing non-infringing competing technologies. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Further, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims attacking the scope, validity, and enforceability of our intellectual property rights, or with counterclaims and countersuits asserting infringement by our products and services of third-party intellectual property rights. Our failure to secure, protect, and enforce our intellectual property rights could seriously adversely affect our brand and our business.

Additionally, the United States Patent and Trademark Office and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment, and other similar provisions in order to complete the patent or trademark application process and to maintain issued patents or trademarks. There are situations in which noncompliance or non-payment can result in abandonment or lapse of the patent or trademark or associated application, resulting in partial or complete loss of patent or trademark rights in the relevant jurisdiction. If this occurs, it could have a material adverse effect on our business operations and financial condition.

We are vulnerable to intellectual property infringement claims brought against us by others.

There has been considerable activity in our industry to develop and enforce intellectual property rights. Successful intellectual property infringement claims against us or certain third parties, such as our customers, resellers, or strategic partners, could result in monetary liability or a material disruption in the conduct of our business. We cannot be certain that our products and services, content, and brand names do not or will not infringe valid patents, trademarks, copyrights, or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. Any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to cease selling or using solutions that incorporate the intellectual property that we allegedly infringe, make substantial payments for legal fees, settlement payments, or other costs or damages, obtain a license, which may not be available on reasonable terms or at all, to sell or use the relevant technology, or redesign the allegedly infringing solutions to avoid infringement, which could be costly, time-consuming, or impossible. Any claims or litigation, regardless of merit, could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our products and services, or require that we comply with other unfavorable terms. We do not have a significant patent portfolio, which could prevent us from deterring patent infringement claims through our own patent portfolio, and our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. We may also be obligated to indemnify our customers or strategic partners in connection with such infringement claims, or to obtain licenses from third parties or modify our solution, and each such obligation could further exhaust our resources. Some of our intellectual property infringement indemnification obligations are contractually capped at a very high amount or not capped at all.

Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the time and attention of our management and other employees, and adversely affect our business and operating results. We expect that the occurrence of infringement claims is likely to grow as the market for subscription management products and services grows. Accordingly, our exposure to damages resulting from infringement claims could increase and this could further exhaust our financial and management resources.

Our solution contains open source software components, and failure to comply with the terms of the underlying licenses could restrict our ability to sell our solution.

Our solution incorporates certain open source software. An open source license typically permits the use, modification, and distribution of software in source code form subject to certain conditions. Some open source licenses contain conditions that any person who distributes or uses a modification or derivative work of software that was subject to an open source license make the modified version subject to the same open source license. Distributing or using software that is subject to this kind of open source license can lead to a requirement that certain aspects of our solution be distributed or made available in source code form. Although we do not believe that we have used open source software in a manner that might condition its use on our distribution of any portion of our solution in source code form, the interpretation of open source licenses is legally complex and, despite our efforts, it is possible that we may be liable for copyright infringement, breach of contract, or other claims if our use of open source software is adjudged to not comply with the applicable open source licenses.

Moreover, we cannot assure you that our processes for controlling our use of open source software in our solution will be effective. If we have not complied with the terms of an applicable open source software license, we may need to seek licenses from third parties to continue offering our solution on terms that are not economically feasible, to re-engineer our solution to remove or replace the open source software, to discontinue the sale of our solution if re-engineering could not be accomplished on a timely basis, to pay monetary damages, or to make available the source code for aspects of our proprietary technology, any of which could adversely affect our business, operating results, and financial condition.

In addition to risks related to license requirements, use of open source software can involve greater risks than those associated with use of third-party commercial software, as open source licensors generally do not provide warranties, assurances of title, performance, non-infringement, or controls on the origin of the software. There is typically no support available for open source software, and we cannot assure you that the authors of such open source software will not abandon further development and maintenance. Open source software may contain security vulnerabilities, and we may be subject to additional security risk by using open source software. Many of the risks associated with the use of open source software, such as the lack of warranties or assurances of title or

performance, cannot be eliminated, and could, if not properly addressed, negatively affect our business. We have established processes to help alleviate these risks, including a review process for screening requests from our development organizations for the use of open source software, but we cannot be sure that all open source software is identified or submitted for approval prior to use in our solution.

Risks Related to Legal, Regulatory, Accounting, and Tax Matters

If we are not able to satisfy data protection, security, privacy, and other government- and industry-specific requirements, our growth could be harmed.

We are subject to data protection, security, privacy, and other government- and industry-specific requirements, including those that require us to notify individuals of data security and privacy incidents involving certain types of personal data. Security and privacy compromises experienced by us or our service providers may lead to public disclosures, which could harm our reputation, erode customer confidence in the effectiveness of our security and privacy measures, negatively impact our ability to attract new customers, cause existing customers to elect not to renew their subscriptions with us, or negatively impact our employee relationships or impair our ability to attract new employees. In addition, some of the industries we serve have industry-specific requirements relating to compliance with certain security, privacy and regulatory standards, such as those required by the Health Insurance Portability and Accountability Act. We also maintain compliance with the Payment Card Industry Data Security Standard, which is critical to the financial services and insurance industries. As we expand and sell into new verticals and regions, we will likely need to comply with these and other requirements to compete effectively. If we cannot comply or if we incur a violation in one or more of these requirements, our growth could be adversely impacted, and we could incur significant liability.

Because we typically recognize subscription revenue over the term of the applicable agreement, a lack of subscription renewals or new subscription agreements may not be reflected immediately in our operating results and may be difficult to discern.

We generally recognize subscription revenue from customers ratably over the terms of their contracts, which typically vary between one and three years. As a result, most of the subscription revenue we report in each quarter is derived from the recognition of unearned revenue relating to subscriptions entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any particular quarter would likely have a minor impact on our revenue results for that quarter, but could negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our solution, and potential changes in our pricing policies or rate of renewals, may not be fully reflected in our operating results until future periods. Moreover, our subscription model makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

We typically provide service level commitments under our customer contracts. If we fail to meet these contractual commitments, we could be obligated to provide credits or refunds for prepaid amounts related to unused subscription services or face contract terminations, which could adversely affect our operating results.

Our customer contracts typically provide for service level commitments, which relate to service uptime, response times, and escalation procedures. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our solution, we may be contractually obligated to provide these customers with service credits, refunds for prepaid amounts related to unused subscription services, or other remedies, or we could face contract terminations. In addition, we could face legal claims for breach of contract, product liability, tort, or breach of warranty. Although we have contractual protections, such as warranty disclaimers and limitation of liability provisions, in our customer agreements, they may not fully or effectively protect us from claims by customers, commercial relationships, or other third parties. We may not be fully indemnified by our vendors for service interruptions beyond our control, and any insurance coverage we may have may not adequately cover all claims asserted against us, or cover only a portion of such claims. In addition, even claims that ultimately are unsuccessful could result in our expenditure of funds in litigation and divert management's time and other resources. Thus, our revenue could be harmed if we fail to meet our service level commitments under our agreements with our customers, including, but not limited to, maintenance response times and service outages. Typically, we have not been required to provide customers with service credits that have been material to our operating results, but we cannot assure you that we will not incur material costs associated with providing service credits to our customers in the future.

Additionally, any failure to meet our service level commitments could adversely impact our reputation, business, operating results, and financial condition.

Our customers may fail to pay us in accordance with the terms of their agreements, necessitating action by us to compel payment.

We typically enter into non-cancelable agreements with our customers with a term of one to three years. If customers fail to pay us under the terms of our agreements, we may be adversely affected both from the inability to collect amounts due and the cost of enforcing the terms of our contracts, including litigation. The risk of such negative effects increases with the term length of our customer arrangements. Furthermore, some of our customers may seek bankruptcy protection or other similar relief and fail to pay amounts due to us, or pay those amounts more slowly, either of which could adversely affect our operating results, financial position, and cash flow. Although we have processes in place that are designed to monitor and mitigate these risks, we cannot guarantee these programs will be effective. If we are unable to adequately control these risks, our business, operating results and financial condition could be harmed. Furthermore, as a result of the COVID-19 pandemic, some existing customers have negotiated and others may attempt to renegotiate contracts and obtain concessions, including, among other things, longer payment terms or modified subscription dates, or may fail to make payments on their existing contracts, which may materially and negatively impact our operating results and financial condition.

Adverse litigation judgments or settlements resulting from legal proceedings in which we may be involved could expose us to monetary damages or limit our ability to operate our business.

We are currently involved in stockholder litigation and have in the past and may in the future become involved in other class actions, derivative actions, private actions, collective actions, investigations, and various other legal proceedings by stockholders, customers, employees, suppliers, competitors, government agencies, or others. The results of any such litigation, investigations, and other legal proceedings are inherently unpredictable and expensive. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, damage our reputation, require significant amounts of management time, and divert significant resources. If any of these legal proceedings were to be determined adversely to us, or we were to enter into a settlement arrangement, we could be exposed to monetary damages or limits on our ability to operate our business, which could have an adverse effect on our business, financial condition, and operating results.

Privacy and security concerns, laws, and regulations, may reduce the effectiveness of our solution and adversely affect our business.

Our customers can use our solution to collect, use, and store personal information regarding their customers or other end users. National and local governments and agencies have adopted or may adopt laws and regulations regarding the collection, use, storage, data residency, security, disclosure, transfer across borders and other processing of information obtained from customers, consumers and other individuals. These laws and regulations and the associated costs of compliance, and other burdens, including the inability to transfer information between jurisdictions or the obligation to store information in a jurisdiction, could:

- impact our ability to offer our products and services in certain jurisdictions,
- decrease demand for or require us to modify or restrict our product or services, or
- impact our customers' ability and willingness to use, including to process certain types of personal information, adopt and deploy our solution globally.

Compliance or our inability to comply with such laws, regulations, and other obligations, could lead to reduced overall demand and impair our ability to maintain and grow our customer base and increase our revenue. Any changes we consider necessary or appropriate to make to our business to comply with laws, regulations, or other obligations, we may be unable to make in a commercially reasonable manner, in a timely fashion, or at all.

Additionally, laws and regulations relating to the processing of information can vary significantly based on the jurisdiction. Some regions and countries have or are enacting strict laws and regulations, including the European Union (EU), China and India, as well as states within the United States, such as California. The General Data Protection Regulation (GDPR) became effective in May 2018. The GDPR established new requirements for processing personal data and imposes penalties of up to the greater of €20 million or 4% of worldwide revenue. The

pending EU ePrivacy Regulation is expected to establish additional restrictions and penalties. In January 2020, the California Consumer Privacy Act (CCPA) which provides new data privacy rights for consumers, including a private right of action for security breaches, new penalties for violations, and new operational requirements for companies, went into effect. The California Privacy Rights Act (CPRA) will replace the CCPA and becomes effective on January 2, 2023. The CCPA gives, and the CPRA will give, California residents expanded rights to access and require deletion of their personal data, opt out of certain personal data sharing, and receive detailed information about how their personal data is collected, used and shared. The CCPA provides for civil penalties for violations, as well as a private right of action for security breaches that may increase security breach litigation. The CCPA and CPRA may increase our compliance costs and potential liability, particularly in the event of a data breach, and could have a material adverse effect on our business, including how we use personal data, our financial condition, our operating results or prospects. The CCPA has also 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. Changing definitions of personal data and information may also limit or inhibit our ability to operate or expand our business, including limiting strategic partnerships that may involve the sharing of data. Also, some jurisdictions require that certain types of data be retained on servers within these jurisdictions. Our failure to comply with applicable laws and regulations may result in enforcement action or litigation against us, including fines, and damage to our reputation, any of which may have an adverse effect on our business and operating results.

We also are bound by standards, contracts and other obligations relating to processing personal information that are more stringent than applicable laws and regulations. The costs of compliance with, and other burdens imposed by, these laws, regulations, and other obligations are significant. In addition, some companies, particularly larger or global enterprises, often will not contract with vendors that do not meet these rigorous obligations and often seek contract terms to ensure we are financially liable for any breach of these obligations. Accordingly, our or as well as our vendors' failure, or perceived inability, to comply with these obligations may limit the demand, use and adoption of our solution, lead to regulatory investigations, breach of contract claims, litigation, damage our reputation and brand and lead to significant fines, penalties, or liabilities or slow the pace at which we close sales transactions, any of which could harm our business. Future laws, regulations, standards, and other obligations, actions by governments or other agencies, and changes in the interpretation or inconsistent interpretation of existing laws, regulations, standards, and other obligations could result in increased regulation, increased costs of compliance and penalties for non-compliance, costly changes to Zuora's products or their functionality, and limitations on processing personal information. For example, the EU and United States agreed in 2016 to a framework for data transferred from the EU to the United States, called the Privacy Shield, which was invalidated by the European Court in July 2020. Based on the European Court's July 2020 decision that companies may continue to rely on Standard Contractual Clauses, commonly referred to as the Model Clauses, if certain requirements are met, Zuora continues to rely upon such clauses for transfers of personal data across national borders. In the future, the Model Clauses may be modified or invalidated, which could affect Zuora's or its customers' ability to transfer personal data and customers' ability to use Zuora's products and services.

Additionally, the United Kingdom's departure in January 2020 from the EU (commonly referred to as "Brexit"), has created uncertainty with regard to the requirements for data transfers between the United Kingdom, the EU and other jurisdictions, and the ability to conduct business may be negatively impacted due to circumstances beyond our control, including ongoing uncertainty regarding the formal agreements or arrangements between the EU and the United Kingdom, changes in laws and enforcement, or the time and costs to put in place new mechanisms for the transfer of personal data.

Privacy advocacy groups, the technology industry, and other industries have established or may establish various new, additional, or different self-regulatory standards that may place additional burdens on us. Our customers may require us or we may find it advisable to meet voluntary certifications or adhere to other standards established by them or third parties. Our customers may also expect us to take proactive stances or contractually require us to take certain actions should a request for personal information belonging to customers be received from a government or regulatory agency. If we are unable to maintain such certifications, comply with such standards, or meet such customer requests, it could reduce demand for our solution and adversely affect our business.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations which could subject our business to increased tax liability.

Our ability to use our net operating losses, or NOLs, to offset future taxable income may be subject to certain limitations which could subject our business to higher tax liability. We may be limited in the portion of NOL

carryforwards that we can use in the future to offset taxable income for U.S. federal and state income tax purposes, and federal tax credits to offset federal tax liabilities.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which modified certain provisions of the Tax Cuts and Jobs Act (Tax Reform Act), was enacted. Under the CARES Act, NOLs arising in taxable years beginning after December 31, 2017 and before January 1, 2021 may be carried back to each of the five taxable years preceding the tax year of such loss, but NOLs arising in taxable years beginning after December 31, 2020 may not be carried back. Under the Tax Reform Act, as modified by the CARES Act, NOLs from tax years that began after December 31, 2017 may offset no more than 80% of current taxable income annually for taxable years beginning after December 31, 2020. Accordingly, if we generate NOLs for tax years beginning after December 31, 2017, we might have to pay more federal income taxes in a subsequent year as a result of the 80% taxable income limitation than we would have had to pay under the law in effect before the Tax Reform Act as modified by the CARES Act. Also, as a result of any additional modifications to current and future similar laws, we may be required to pay more federal and state income taxes in future years than we would have had to pay under pre-existing law.

We may need to raise additional capital required to grow our business, and we may not be able to raise capital on terms acceptable to us or at all.

In order to support our growth and respond to business challenges, such as developing new features or enhancements to our solution to stay competitive, acquiring new technologies, and improving our infrastructure, we have made significant financial investments in our business, and we intend to continue to make such investments. As a result, to provide the funds required for these investments and other business endeavors, we may need to engage in equity or debt financings, in addition to any indebtedness we may have under our then current debt arrangements. If we raise additional funds through equity or convertible debt issuances, our existing stockholders may suffer significant dilution, and these securities could have rights, preferences, and privileges that are superior to that of holders of our common stock. If we obtain additional funds through debt financing, we may not be able to obtain such financing on terms favorable to us. Such terms may involve additional restrictive covenants making it difficult to engage in capital raising activities and pursue business opportunities, including potential acquisitions. In early fiscal 2021, the trading prices for our common stock and other technology companies were highly volatile as a result of the COVID-19 pandemic. Future volatility in the trading price of our common stock may reduce our ability to access capital on favorable terms or at all. In addition, a recession, depression or other sustained adverse market event resulting from the spread of COVID-19 could materially and adversely affect our business and the value of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired and our business may be adversely affected, requiring us to delay, reduce, or eliminate some or all of our operations.

Failure to comply with anti-corruption and anti-money laundering laws, including the FCPA and similar laws associated with our activities outside of the United States, could subject us to penalties and other adverse consequences.

We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the UK Bribery Act, and possibly other anti-bribery and anti-money laundering laws in countries in which we conduct activities. We face significant risks if we fail to comply with the FCPA and other anti-corruption laws that prohibit companies and their employees and third-party intermediaries from promising, authorizing, offering, or providing, directly or indirectly, improper payments or benefits to foreign government officials, political parties, and private-sector recipients for the purpose of obtaining or retaining business, directing business to any person, or securing any advantage. In many foreign countries, particularly in countries with developing economies, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. In addition, we use various third parties to sell our solution and conduct our business abroad. We or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and we can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities. We have implemented an anti-corruption compliance program but cannot assure you that all of our employees and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

Any violation of the FCPA, other applicable anti-corruption laws, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, or severe criminal or civil sanctions, which could have a materially adverse effect on our reputation, business, operating results, and prospects. In addition, responding to any enforcement action may result in a significant diversion of management's attention and resources, significant defense costs, and other professional fees.

We are required to comply with governmental export control laws and regulations. Our failure to comply with these laws and regulations could have an adverse effect on our business and operating results.

Our solution is subject to governmental, including United States and European Union, export control laws and import regulations, and as a U.S. company we are covered by the U.S. sanctions regulations. U.S. export control and economic sanctions laws and regulations prohibit the shipment of certain products and services to U.S. embargoed or sanctioned countries, governments, entities and persons, and complying with export control and sanctions regulations for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. While we take precautions to prevent our solution from being exported in violation of these laws or engaging in any other activities that are subject to these regulations, if we were to fail to comply with U.S. export laws, U.S. Customs regulations and import regulations, U.S. economic sanctions, and other countries' import and export laws, we could be subject to substantial civil and criminal penalties, including fines for the company, incarceration for responsible employees and managers; the possible loss of export or import privileges which could impact our ability to provide our solution to customers; and reputational harm.

We incorporate encryption technology into certain of our products and certain encryption products may be exported outside of the United States only by a license or a license exception. In addition, various countries regulate the import of certain encryption technology, including import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to deploy our products in those countries. Although we take precautions to prevent our products from being provided in violation of such laws, we cannot assure you that inadvertent violations of such laws have not occurred or will not occur in connection with the distribution of our products despite the precautions we take. Governmental regulation of encryption technology and regulation of imports or exports, or our failure to obtain required import or export approval for our products, could harm our international sales and adversely affect our operating results.

Further, if our partners, including suppliers, fail to obtain required import, export, or re-export licenses or permits, we may also be harmed, become the subject of government investigations or penalties, and incur reputational harm. Changes in our solution or changes in export and import regulations may create delays in the introduction of our solution in international markets, prevent our customers with international operations from deploying our solution globally or, in some cases, prevent the export or import of our solution to certain countries, governments, or persons altogether. Any change in export or import laws or regulations, economic sanctions, or related legislation, shift in the enforcement or scope of existing laws and regulations, or change in the countries, governments, persons, or technologies targeted by such laws and regulations, could result in decreased use of our solution by, or in our decreased ability to export or sell our solution to, existing or potential customers such as customers with international operations or customers who are added to the restricted entities list published by the U.S. Office of Foreign Assets Control (OFAC). Any decreased use of our solution or limitation on our ability to export or sell our solution would likely harm our business, financial condition, and operating results.

The applicability of sales, use and other tax laws or regulations in the U.S. and internationally on our business is uncertain. Adverse tax laws or regulations could be enacted or existing laws could be applied to us or our customers, which could subject us to additional tax liability and related interest and penalties, increase the costs of our services and adversely impact our business.

The application of federal, state, local, and non-U.S. tax laws to services provided electronically is evolving. New income, sales, use, value-added, or other direct or indirect tax laws, statutes, rules, regulations, or ordinances could be enacted at any time (possibly with retroactive effect), and could be applied solely or disproportionately to services provided over the Internet or could otherwise materially affect our financial position and results of operations. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, have proposed or recommended changes to existing tax laws or have enacted new laws that could impact our tax obligations. As we expand the scale of our international business activities, any changes in the U.S. or foreign taxation of such activities may increase our worldwide effective tax rate and harm our business, results of operations, and financial condition.

In addition, state, local, and foreign tax jurisdictions have differing rules and regulations governing sales, use, value-added, and other taxes, and these rules and regulations can be complex and are subject to varying interpretations that may change over time. Existing tax laws, statutes, rules, regulations, or ordinances could be interpreted, changed, modified, or applied adversely to us (possibly with retroactive effect), which could require us or our customers to pay additional tax amounts on prior sales and going forward, as well as require us or our customers to pay fines or penalties and interest for past amounts. Although our customer contracts typically provide that our customers must pay all applicable sales and similar taxes, our customers may be reluctant to pay back taxes and associated interest or penalties, or we may determine that it would not be commercially feasible to seek reimbursement. If we are required to collect and pay back taxes and associated interest and penalties, or we are unsuccessful in collecting such amounts from our customers, we could incur potentially substantial unplanned expenses, thereby adversely impacting our operating results and cash flows. Imposition of such taxes on our services going forward could also adversely affect our sales activity and have a negative impact on our operating results and cash flows.

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

Generally Accepted Accounting Principles (GAAP) is subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. Any difficulties in implementing these pronouncements, including those described in *Note 2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements* of our Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K, could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

Risks Related to Ownership of Our Class A Common Stock

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

The market price of our Class A common stock has been and may continue to be volatile. Since shares of our Class A were sold in our Initial Public Offering (IPO) in April 2018 at a price of \$14.00 per share, the reported low and high sales prices of our common stock has ranged from \$6.21 to \$37.78 through March 30, 2021. The market price of our Class A common stock and the market price of the common stock of many other companies fell significantly in the early stage of the COVID-19 pandemic. The extent to which, and for how long, the COVID-19 pandemic may continue to impact the market price of our Class A common stock is unclear. In addition to factors discussed in this Form 10-K, the market price of our Class A common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- overall performance of the equity markets;
- actual or anticipated fluctuations in our revenue and other operating results;
- changes in the financial projections we may provide to the public or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- recruitment or departure of key personnel;
- the economy as a whole and market conditions in our industry;
- negative publicity related to the real or perceived quality of our solution, as well as the failure to timely launch new products and services that gain market acceptance;
- growth of the Subscription Economy;
- rumors and market speculation involving us or other companies in our industry;

- announcements by us or our competitors of new products, commercial relationships, or significant technical innovations;
- acquisitions, strategic partnerships, joint ventures, or capital commitments;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- lawsuits threatened or filed against us, litigation involving our industry, or both;
- developments or disputes concerning our or other parties' products, services, or intellectual property rights;
- the inclusion of our Class A common stock on stock market indexes, including the impact of rules adopted by certain index providers, such as S&P Dow Jones Indices and FTSE Russell, that limit or preclude inclusion of companies with multi-class capital structures;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- the impact of the COVID-19 pandemic, including on the global economy, our operating results and enterprise technology spending;
- other events or factors, including those resulting from pandemics, war, incidents of terrorism, or responses to these events; and
- sales of shares of our Class A common stock by us or our stockholders.

In addition, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies, and technology companies in particular, have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted shareholder litigation following periods of market volatility. We are currently subject to stockholder litigation, which is described in *Note 13. Commitments and Contingencies* in the notes to our consolidated financial statements. This or any future shareholder litigation could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business.

Sales of a substantial number of shares of our Class A common stock in the public market, particularly sales by our directors, executive officers, and significant stockholders, or the perception that these sales could occur, could cause the market price of our Class A common stock to decline and may make it more difficult for you to sell your Class A common stock at a time and price that you deem appropriate.

The market price of our Class A common stock could decline as a result of sales of a large number of shares of our Class A common stock in the market. The perception that these sales might occur may also cause the market price of our Class A common stock to decline. As of February 28, 2021, we had outstanding a total of 110.0 million shares of Class A common stock and 11.0 million shares of Class B common stock.

In addition, as of January 31, 2021, we had outstanding stock options and restricted stock units (RSUs) that could result in the issuance of 20.1 million shares of Class A common stock. Subject to the satisfaction of applicable vesting requirements, the shares issued upon exercise of outstanding stock options or settlement of outstanding RSUs will be available for immediate resale in the open market.

Moreover, certain holders of our common stock have rights, subject to some conditions, to require us to file registration statements for the public resale of such shares or to include such shares in registration statements that we may file for us or other stockholders.

We may also issue our shares of common stock or securities convertible into shares of our common stock from time to time in connection with a financing, acquisition, investments, or otherwise. We also expect to grant equity awards to employees, directors, and consultants under our 2018 Equity Incentive Plan (2018 Plan) and rights to purchase our Class A common stock under our ESPP. Any such issuances could result in substantial dilution to our existing stockholders and cause the market price of our Class A common stock to decline.

If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, the price of our Class A common stock and trading volume could decline.

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. If few securities analysts commence coverage of us, or if industry analysts cease coverage of us, the trading price for our Class A common stock could be negatively affected. 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 Class A common stock would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Class A common stock could decrease, which might cause our Class A common stock price and trading volume to decline.

Even if our stock is actively covered by analysts, we do not have any control over the analysts or the measures that analysts or investors may rely upon to forecast our future results. For example, in order to assess our business activity in a given period, analysts and investors may look at the combination of revenue and changes in deferred revenue in a given period (sometimes referred to as “billings”). Over-reliance on billings or similar measures may result in analyst or investor forecasts that differ significantly from our own for a variety of reasons, including:

- a relatively large number of transactions occur at the end of the quarter. Invoicing of those transactions may or may not occur before the end of the quarter based on a number of factors including receipt of information from the customer, volume of transactions, and holidays. A shift of a few days has little economic impact on our business, but will shift deferred revenue from one period into the next;
- a shift in billing frequency (i.e. from monthly to quarterly or from quarterly to annually), which may distort trends;
- subscriptions that have deferred start dates; and
- services that are invoiced upon delivery.

In addition, the revenue recognition disclosure obligations under Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) are prepared on the basis of estimates that can change over time and on the basis of events over which we have no control. It is possible that analysts and investors may misinterpret our disclosure or that our methods for estimating this disclosure may differ significantly from others, which could lead to inaccurate or unfavorable forecasts by analysts and investors.

The dual class structure of our common stock has the effect of concentrating voting control with holders of our Class B common stock, including our directors, executive officers, and significant stockholders, which limits or precludes your ability to influence corporate matters, including the election of directors and the approval of any change of control transaction.

Our Class B common stock has ten votes per share, and our Class A common stock has one vote per share. As of January 31, 2021, our directors, executive officers, and holders of more than 5% of our common stock, and their respective affiliates, held a majority of the voting power of our capital stock. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock (including outstanding vested options, if exercised) collectively would control a majority of the combined voting power of our common stock and therefore are able to control all matters submitted to our stockholders for approval until the earlier of (i) the date specified by a vote of the holders of 66 2/3% of the outstanding shares of Class B common stock, (ii) April 16, 2028, and (iii) the date the shares of Class B common stock cease to represent at least 5% of all outstanding shares of our common stock. This concentrated control limits or precludes your ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interest as one of our stockholders.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain permitted transfers effected for estate planning purposes. The conversion of Class B common stock to Class A common stock 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.

The dual class structure of our common stock may adversely affect the trading market for our Class A common stock.

Stock index providers, such as S&P Dow Jones and FTSE Russell, exclude or limit the eligibility of public companies with multiple classes of shares of common stock for certain indices, including the S&P 500. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our common stock may prevent the inclusion of our Class A common stock in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for our Class A common stock. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our Class A common stock.

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

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. Additionally, our ability to pay dividends on our common stock is limited by restrictions under the terms of our Debt Agreement. We anticipate that for the foreseeable future we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our Board of Directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management, limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees, and limit the market price of our Class A common stock.

Provisions in our restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our restated certificate of incorporation and amended and restated bylaws include provisions that:

- provide that our Board of Directors will be classified into three classes of directors with staggered three-year terms;
- permit the Board of Directors to establish the number of directors and fill any vacancies and newly-created directorships;
- require supermajority voting to amend some provisions in our restated certificate of incorporation and amended and restated bylaws;
- authorize the issuance of "blank check" preferred stock that our Board of Directors could use to implement a stockholder rights plan;
- provide that only the chairman of our Board of Directors, our chief executive officer, lead independent director, or a majority of our Board of Directors will be authorized to call a special meeting of stockholders;
- provide for a dual class common stock structure in which holders of our Class B common stock may have the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the outstanding shares of our common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the Board of Directors is expressly authorized to make, alter, or repeal our bylaws; and
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, our restated certificate of incorporation provides that, to the fullest extent permitted by law, the Court of Chancery of the State of Delaware is the exclusive forum for: any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, or DGCL, our restated certificate of incorporation, or our amended and restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. This exclusive forum provision does not apply to suits brought to enforce a duty or liability created by the Exchange Act. It would apply, however, to a suit that falls within one or more of the categories enumerated in the exclusive forum provision.

Section 22 of the Securities Act of 1933, as amended (Securities Act), creates concurrent jurisdiction for federal and state courts over all claims brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. In April 2020, we amended and restated our bylaws to provide that the federal district courts of the United States of America will, to the fullest extent permitted by law, be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (Federal Forum Provision). Our decision to adopt a Federal Forum Provision followed a decision by the Supreme Court of the State of Delaware holding that such provisions are facially valid under Delaware law. While there can be no assurance that federal or state courts will follow the holding of the Delaware Supreme Court or determine that the Federal Forum Provision should be enforced in a particular case, application of the Federal Forum Provision means that suits brought by our stockholders to enforce any duty or liability created by the Securities Act must be brought in federal court and cannot be brought in state court.

Section 27 of the Exchange Act creates exclusive federal jurisdiction over all claims brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. In addition, neither the exclusive forum provision nor the Federal Forum Provision applies to suits brought to enforce any duty or liability created by the Exchange Act. Accordingly, actions by our stockholders to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder must be brought in federal court. Our stockholders will not be deemed to have waived our compliance with the federal securities laws and the regulations promulgated thereunder.

Any person or entity purchasing or otherwise acquiring or holding any interest in any of our securities shall be deemed to have notice of and consented to our exclusive forum provisions, including the Federal Forum Provision. These provisions may limit a stockholders' ability to bring a claim in a judicial forum of their 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.

Moreover, Section 203 of the DGCL may discourage, delay, or prevent a change of control of our company. Section 203 imposes certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our common stock.

General Risk Factors

Political developments, economic uncertainty or downturns could adversely affect our business and operating results.

Political developments impacting government spending and international trade, including future government shutdowns in the United States, political uncertainty in Hong Kong, health pandemics such as the COVID-19 pandemic, and trade disputes and tariffs, may negatively impact markets and cause weaker macroeconomic conditions. The continuing effect of any or all of these political uncertainties could adversely impact demand for our products, harm our operations and weaken our financial results.

In addition, in recent years, the United States and other significant markets have experienced cyclical downturns and worldwide economic conditions remain uncertain. Economic uncertainty and associated macroeconomic conditions, including due to pandemics such as the ongoing COVID-19 pandemic, make it extremely difficult for our customers and us to accurately forecast and plan future business activities, and could cause our customers to slow spending on our solution, which could delay and lengthen sales cycles. Furthermore, during uncertain economic times our customers may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for credit losses and our results could be negatively impacted.

We have customers in a variety of different industries. A significant downturn in the economic activity attributable to any particular industry may cause organizations to react by reducing their capital and operating expenditures in general or by specifically reducing their spending on information technology. In addition, our customers may delay or cancel information technology projects or seek to lower their costs by renegotiating vendor contracts. To the extent purchases of our solution are perceived by customers and potential customers to be discretionary, our revenue may be disproportionately affected by delays or reductions in general information technology spending. Also, customers may choose to develop in-house software or modify their legacy business software as an alternative to using our solution. Moreover, competitors may respond to challenging market conditions by lowering prices and attempting to lure away our customers.

We cannot predict the timing, strength, or duration of any economic slowdown or any subsequent recovery generally, or any industry in particular. If the conditions in the general economy and the markets in which we operate worsen from present levels, our business, financial condition, and operating results could be materially adversely affected.

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

As we continue to expand our international operations, we become more exposed to the effects of fluctuations in currency exchange rates. Although we expect an increasing number of sales contracts to be denominated in currencies other than the U.S. dollar in the future, the majority of our sales contracts have historically been denominated in U.S. dollars, and therefore, most of our revenue has not been subject to foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our solution to our customers outside of the United States, which could adversely affect our business, operating results, financial condition, and cash flows. In addition, we incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency. Fluctuations in the exchange rates between the U.S. dollar and other currencies could result in the dollar equivalent of such expenses being higher. Furthermore, volatile market conditions arising from the COVID-19 pandemic may result in significant fluctuations in exchange rates, and, in particular, a weakening of foreign currencies relative to the U.S. dollar may negatively affect our revenue. This could have a negative impact on our operating results. Although we may in the future decide to undertake foreign exchange hedging transactions to cover a portion of our foreign currency exchange exposure, we currently do not hedge our exposure to foreign currency exchange risks.

The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain additional executive management and qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the listing requirements of the New York Stock Exchange, and other applicable securities rules and regulations. We expect compliance with these rules and regulations will continue to increase our legal and financial compliance costs, make some activities more difficult, time-consuming, or costly, and increase demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. Although we have already hired additional employees and outside consultants to comply with these requirements, we may need to add additional resources, which would increase our costs and expenses.

In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased costs and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities

intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us, and our business may be adversely affected.

The rules and regulations applicable to public companies make it more expensive for us to obtain and maintain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in filings required of a public company, our business and financial condition has become more visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

In addition, as a result of our disclosure obligations as a public company, we have reduced flexibility and are under pressure to focus on short-term results, which may adversely affect our ability to achieve long-term profitability.

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

As a public company, we are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. Effective internal control over financial reporting is necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our Class A common stock. This management report will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting, as well as a statement that our independent registered public accounting firm has issued an opinion on our internal control over financial reporting.

Section 404(b) of the Sarbanes-Oxley Act requires our independent registered public accounting firm to annually attest to the effectiveness of our internal control over financial reporting, which has required, and will continue to require, increased costs, expenses, and management resources. An independent assessment of the effectiveness of our internal controls could detect problems that our management's assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation. We are required to disclose changes made in our internal controls and procedures on a quarterly basis. To comply with the requirements of being a public company, we have undertaken, and may need to further undertake in the future, various actions, such as implementing new internal controls and procedures and hiring additional accounting or internal audit staff.

If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control, including as a result of any identified material weakness, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our Class A common stock to decline, and we may be subject to investigation or sanctions by the SEC. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the New York Stock Exchange.

We may be adversely affected by natural disasters, pandemics, and other catastrophic events, and by man-made problems such as terrorism, that could disrupt our business operations. Our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.

Natural disasters, pandemics and epidemics, or other catastrophic events such as fire, power shortages, and other events beyond our control may cause damage or disruption to our operations, international commerce, and the global economy, and could have an adverse effect on our business, operating results, and financial condition.

For example, the ongoing effects of the COVID-19 pandemic and the precautionary measures that we have adopted have resulted in, and could continue to result in, customers not purchasing or renewing our products or services, a significant delay or lengthening of our sales cycles, and could negatively impact our customer success and sales and marketing efforts and could result in difficulties or changes to our customer support, or create operational or other challenges, any of which could harm our business and operating results.

In the event of a natural disaster, including a major earthquake, blizzard, or hurricane, or a catastrophic event such as a fire, power loss, or telecommunications failure, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in development of our solution, lengthy interruptions in service, breaches of data security, and loss of critical data, all of which could have an adverse effect on our future operating results. For example, our corporate headquarters is located in California, a state that frequently experiences earthquakes and wildfires. Additionally, all of the aforementioned risks may be further increased if we do not implement a disaster recovery plan or the disaster recovery plans put in place by Zuora or our partners prove to be inadequate.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are currently located in Redwood City, California where we currently utilize approximately 100,000 square feet of office space under a lease agreement that expires in July 2030, with an option to renew for an additional seven years at the then prevailing rental rate. We also lease facilities in other areas within the United States and around the world.

We intend to procure additional space as we add employees and expand geographically. We believe that our facilities are adequate to meet our needs for the immediate future, and that, should it be needed, suitable additional or substitute space will be available as needed to accommodate any such expansion.

Item 3. Legal Proceedings

Information with respect to this item may be found in *Note 13. Commitments and Contingencies* to the Consolidated Financial Statements in *Item 8. Financial Statements and Supplementary Data*, 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 for Common Stock

Our Class A common stock began trading on the New York Stock Exchange under the symbol "ZUO" on April 12, 2018. Prior to that date, there was no public trading market for our Class A common stock. There is no public trading market for our Class B common stock.

Holdings of Record

As of February 28, 2021, there were 107 and 74 registered holders of record of our Class A and Class B common stock, respectively. Because many of our shares of Class A common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

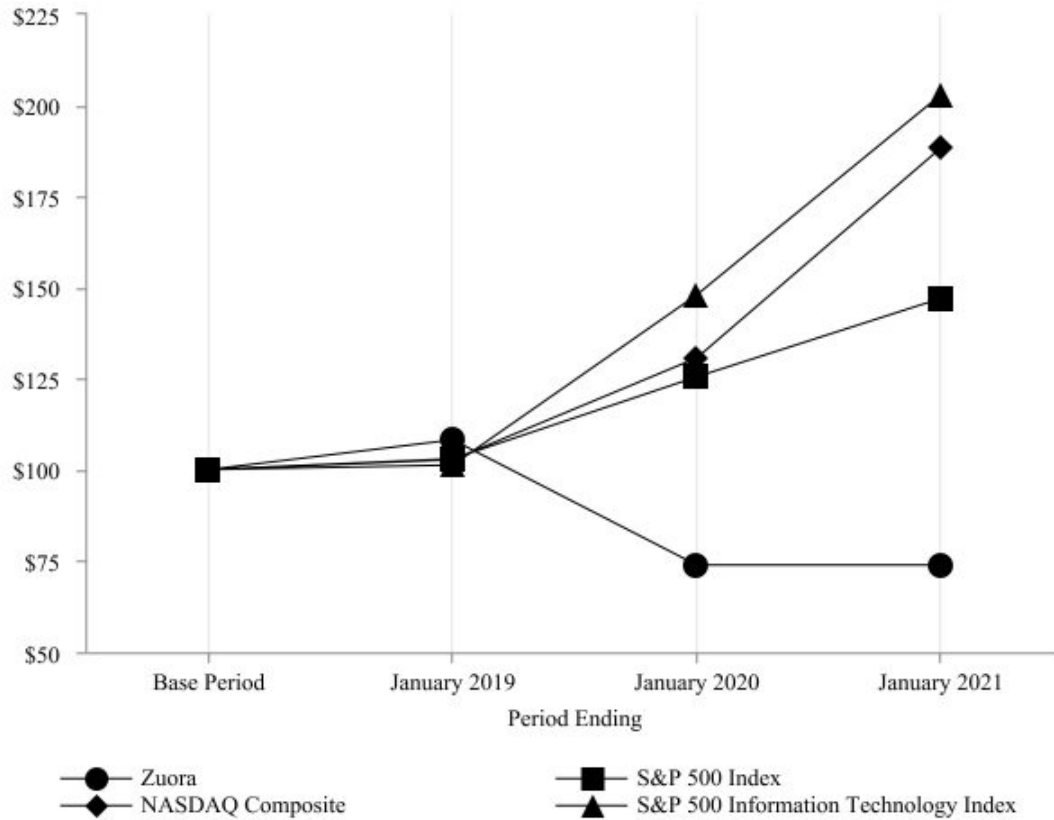
Dividend Policy

We have never declared or paid cash dividends on our capital stock. We do not expect to pay dividends on our capital stock for the foreseeable future. Instead, we anticipate that all of our earnings for the foreseeable future will be used for the operation and growth of our business. Any future determination to declare cash dividends would be subject to the discretion of our Board of Directors and would depend upon various factors, including our operating results, financial condition, and capital requirements, restrictions that may be imposed by applicable law, and other factors deemed relevant by our Board of Directors.

Performance Graph

The performance graph below 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 or the Exchange Act.

We have presented below the cumulative total return to our stockholders between April 12, 2018 (the date our Class A common stock commenced trading on the New York Stock Exchange) through January 31, 2021 in comparison to the Standard & Poor's 500 Index, Standard & Poor Information Technology Index and NASDAQ Composite. All values assume a \$100 initial investment and reinvestment of dividends. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our Class A common stock.



| Company/Index | Base Period April 12, 2018 | January 31, 2019 | January 31, 2020 | January 31, 2021 |
|--------------------------------------|-------------------------------|------------------|------------------|------------------|
| Zuora | \$ 100 | \$ 108.20 | \$ 73.75 | \$ 73.75 |
| S&P 500 Index | \$ 100 | \$ 103.08 | \$ 125.44 | \$ 147.07 |
| NASDAQ Composite | \$ 100 | \$ 102.83 | \$ 130.63 | \$ 188.22 |
| S&P 500 Information Technology Index | \$ 100 | \$ 101.26 | \$ 147.92 | \$ 202.85 |

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Issuer Purchases of Equity Securities

None.

Item 6. Selected Consolidated Financial Data and Other Data

The following tables summarize our selected consolidated financial data for the periods indicated. We derived our selected consolidated statements of comprehensive loss for fiscal 2021, fiscal 2020 and fiscal 2019 and our selected consolidated balance sheet data as of January 31, 2021 and 2020 from our audited consolidated financial statements that are included in this Form 10-K.

We derived the selected consolidated statements of comprehensive loss data for fiscal 2018 and 2017 and the selected consolidated balance sheet data as of January 31, 2019, January 31, 2018 and January 31, 2017 from our audited consolidated financial statements and related notes thereto, which are not included in this Form 10-K.

The selected consolidated balance sheet data as of January 31, 2021 and 2020 set forth in the tables below reflect the prospective adoption of ASU No. 2016-02, *Leases* (Topic 842). The consolidated statements of comprehensive loss data for each of the years ended January 31, 2021, 2020, 2019, and 2018 and the selected consolidated balance sheet data as of January 31, 2021 and 2020 reflect the retrospective adoption of ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). For further information on our adoption of Topic 606 and Topic 842, please refer to our Form 10-K for the fiscal year ended January 31, 2020 filed on March 31, 2020.

Our historical results are not necessarily indicative of the results to be expected in the future. The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and related notes thereto and with the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this Form 10-K.

Our fiscal year end is January 31, and our fiscal quarters end on April 30, July 31, October 31, and January 31. Our fiscal years ended January 31, 2021, 2020, 2019, 2018, and 2017 are referred to herein as fiscal 2021, fiscal 2020, fiscal 2019, fiscal 2018 and fiscal 2017, respectively.

| | Fiscal Year Ended January 31, | | | | |
|--|---------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| | (in thousands, except per share data) | | | | |
| Consolidated Statements of Comprehensive Loss: | | | | | |
| Revenue: | | | | | |
| Subscription | \$ 242,340 | \$ 206,555 | \$ 164,805 | \$ 122,482 | \$ 89,836 |
| Professional services | 63,080 | 69,502 | 70,184 | 48,624 | 23,172 |
| Total revenue | <u>305,420</u> | <u>276,057</u> | <u>234,989</u> | <u>171,106</u> | <u>113,008</u> |
| Cost of revenue: | | | | | |
| Subscription ¹ | 58,808 | 53,036 | 42,993 | 31,077 | 22,840 |
| Professional services ¹ | 71,962 | 81,145 | 73,597 | 48,829 | 25,322 |
| Total cost of revenue | <u>130,770</u> | <u>134,181</u> | <u>116,590</u> | <u>79,906</u> | <u>48,162</u> |
| Gross profit | <u>174,650</u> | <u>141,876</u> | <u>118,399</u> | <u>91,200</u> | <u>64,846</u> |
| Operating expenses: | | | | | |
| Research and development ¹ | 76,795 | 74,398 | 54,417 | 38,639 | 26,355 |
| Sales and marketing ¹ | 116,914 | 108,264 | 95,169 | 68,067 | 62,384 |
| General and administrative ¹ | 54,803 | 44,879 | 39,230 | 22,572 | 15,140 |
| Total operating expenses | <u>248,512</u> | <u>227,541</u> | <u>188,816</u> | <u>129,278</u> | <u>103,879</u> |
| Loss from operations | <u>(73,862)</u> | <u>(85,665)</u> | <u>(70,417)</u> | <u>(38,078)</u> | <u>(39,033)</u> |
| Interest and other income (expense), net | 2,561 | 2,712 | (417) | 252 | 219 |
| Loss before income taxes | <u>(71,301)</u> | <u>(82,953)</u> | <u>(70,834)</u> | <u>(37,826)</u> | <u>(38,814)</u> |
| Income tax provision | 1,873 | 441 | 1,907 | 1,551 | 284 |
| Net loss | <u>(73,174)</u> | <u>(83,394)</u> | <u>(72,741)</u> | <u>(39,377)</u> | <u>(39,098)</u> |
| Comprehensive loss: | | | | | |
| Foreign currency translation adjustment | 696 | (379) | 3 | 960 | (470) |
| Unrealized (loss) gain on available-for-sale securities, net of tax | (88) | 86 | 7 | — | — |
| Comprehensive loss | <u>\$ (72,566)</u> | <u>\$ (83,687)</u> | <u>\$ (72,731)</u> | <u>\$ (38,417)</u> | <u>\$ (39,568)</u> |
| Net loss per share, basic and diluted ² | <u>\$ (0.62)</u> | <u>\$ (0.75)</u> | <u>\$ (0.80)</u> | <u>\$ (1.48)</u> | <u>\$ (1.64)</u> |
| Weighted-average shares outstanding used to compute net loss per share, basic and diluted ² | <u>117,598</u> | <u>111,122</u> | <u>91,267</u> | <u>26,563</u> | <u>23,891</u> |

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

| | Fiscal Year Ended January 31, | | | | |
|--|-------------------------------|------------------|------------------|-----------------|-----------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| | (in thousands) | | | | |
| Cost of subscription revenue | \$ 4,849 | \$ 2,772 | \$ 1,967 | \$ 747 | \$ 326 |
| Cost of professional services revenue | 9,952 | 7,265 | 5,900 | 2,121 | 583 |
| Research and development | 19,562 | 17,568 | 6,345 | 2,292 | 1,126 |
| Sales and marketing | 15,839 | 11,129 | 7,384 | 2,717 | 1,577 |
| General and administrative | 9,081 | 6,312 | 3,761 | 1,113 | 771 |
| Total stock-based compensation expense | <u>\$ 59,283</u> | <u>\$ 45,046</u> | <u>\$ 25,357</u> | <u>\$ 8,990</u> | <u>\$ 4,383</u> |

| | As of January 31, | | | | |
|---|-------------------|------------|------------|-----------|-----------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| | (in thousands) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Cash and cash equivalents and short-term investments* | \$ 186,594 | \$ 171,937 | \$ 175,848 | \$ 48,208 | \$ 72,645 |
| Working capital | 105,743 | 101,164 | 129,682 | 7,595 | 39,663 |
| Total assets | 421,507 | 402,227 | 326,047 | 176,478 | 120,468 |
| Deferred revenue, current portion | 127,701 | 111,411 | 86,784 | 61,966 | 42,554 |
| Total debt | 6,063 | 10,526 | 13,457 | 14,969 | — |
| Convertible preferred stock | — | — | — | 6 | 6 |
| Total stockholders' equity | 171,913 | 164,659 | 181,814 | 50,638 | 54,980 |

(*) Does not include restricted cash of \$2.1 million, \$5.2 million and \$5.2 million as of January 31, 2019, 2018 and 2017, respectively.

(2) Refer to Note 2. *Summary of Significant Accounting Policies and Recent Accounting Pronouncements* and Note 17. *Net Loss Per Share* of the notes to our consolidated financial statements included elsewhere in this Form 10-K for an explanation of the calculations of our net loss per share, basic and diluted.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. As discussed in the section titled "Special Note Regarding Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" under Part I, Item 1A in this Form 10-K. Our fiscal year ends January 31.

We have omitted discussion of fiscal 2019 results where it would be redundant to the discussion previously included in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 31, 2020, filed with the SEC on March 31, 2020.

Overview

Business Summary

Zuora provides a cloud-based subscription management platform, architected specifically for dynamic, recurring business models. Our solution enables companies across multiple industries and geographies to launch, manage and scale a subscription business, automating the entire subscription order-to-revenue process, including billing, collections and revenue recognition. With Zuora's solution, businesses can change pricing and packaging for products and services to grow and scale, efficiently comply with revenue recognition standards, analyze customer data to optimize their subscription offerings, and build meaningful relationships with their subscribers.

Many of today's enterprise software systems manage their order-to-revenue processes using software built for a product driven economy. These systems were not designed for the dynamic, ongoing nature of subscription services and are extremely difficult to configure. In traditional product-based businesses, order-to-revenue was a linear process—a customer orders a product, is billed for that product, payment is collected, and the revenue is recognized. These legacy product-based systems were not specifically designed to handle the complexities and ongoing customer events of recurring relationships, commonly found in a subscription business, and their impact on areas such as billing proration, revenue recognition, and reporting in real-time. Using product-based software to build a subscription business often results in inefficient processes with prolonged and complex manual downstream work, hard-coded customizations, and a proliferation of stock-keeping units (SKUs).

However, new subscription business models are inherently dynamic, with multiple interactions and constantly-changing relationships and events. The capabilities to launch, price, and bill for products, facilitate and record cash receipts, process and recognize revenue, and analyze data to drive key decisions are mission critical and particularly complex for companies with subscription business models. As a result, as companies launch or grow a subscription business, they often conclude that legacy systems are inadequate. That's where Zuora comes in.

Our vision is "The World Subscribed" -- the idea that one day every company will be a part of the Subscription Economy. Our focus has been on developing software that enables our customers to thrive as a subscription business.

Our solution includes *Zuora Central Platform, Zuora Billing, Zuora Revenue, Zuora Collect*, and other software that support and expand upon these core products. Our software helps companies analyze data - including information such as which customers are delivering the most recurring revenue, or which segments are showing the highest churn, enabling customers to make informed decisions for their subscription business and quickly implement changes such as launching new services, updating pricing (usage, time, or outcome based), delivering new offerings, or making other changes to their customers' subscription experience. We also have a large subscription ecosystem of global partners and the Subscribed Strategy Group, that can assist our customers with additional strategies and services throughout the subscription journey.

Companies in a variety of industries - technology, manufacturing, media and entertainment, telecommunications, and many others - are using our solution to scale and adapt to a world that is increasingly choosing subscription-based offerings.

COVID-19 Pandemic Impact

The COVID-19 pandemic has caused certain disruptions to our business operations—such as delays and lengthening of our customary sales cycles and postponed implementations, certain customers not purchasing or renewing our products or services, requests for extended payment terms and contract restructurings by certain customers more severely impacted by the pandemic, challenges in sales and customer success efforts due to travel restrictions, and shifting certain customer events to virtual-only experiences. During the year ended January 31, 2021, we experienced disruptions including customer loss, down-sells, customer requests for extended payment terms and other relief due to the COVID-19 pandemic. We believe that such COVID-related disruptions negatively impacted our ability to generate new business and increased churn for the year. However, because our financial results are driven by multiple factors, some of which are not quantifiable, it is not possible to determine the significance of the specific impact of the COVID-19 pandemic on our financial results in any given period.

Because our products are generally offered as subscription-based licenses and a portion of that revenue is recognized over time, the effect of the pandemic may not be fully reflected in our operating results until future periods. The extent to which the COVID-19 pandemic impacts our business operations in future periods will depend on multiple uncertain factors, including the duration and severity of the pandemic, its overall negative impact on the global economy generally and on our customers, which operate in numerous industries, and continued responses by governments and businesses to COVID-19.

We are continuing to monitor the impact of the COVID-19 pandemic on our business operations and financial results. As a prudent cost-saving measure and to preserve cash, we have implemented plans to manage our costs in certain areas such as travel, events, and marketing and have previously reduced our pace of hiring while continuing to prioritize new headcount critical to operations, sales and customer support. For example, during fiscal 2021, we generally did not increase base salaries in order to preserve cash in light of the COVID-19 pandemic. During the three months ended July 31, 2020, for retention purposes, we issued RSU grants to eligible non-executive employees that vested in full during fiscal 2021. See *Note 16. Employee Stock Plans* to the consolidated financial statements contained herein for additional details. To the extent the business disruption continues for an extended period, additional cost management actions may be considered. The uncertainty surrounding the COVID-19 pandemic and its impact on the global economy could also lead to a more significant adverse impact on our business operations and financial performance in the future.

The COVID-19 pandemic and its impact on us and the economy has significantly limited our ability to forecast our future operating results, including our ability to predict revenue and expense levels, and plan for and model future operating results. Our competitors could experience similar or different impacts as a result of COVID-19, which could result in changes to our competitive landscape. While we have developed and continue to develop plans to help mitigate the negative impact of the pandemic on our business, these efforts may not be effective and any protracted economic downturn could significantly affect our business and operating results. We will continue to evaluate the nature and extent of the impact of the COVID-19 pandemic to our business. See Part I, Item 1A. Risk Factors of this Annual Report on Form 10-K for further discussion of the possible impact of the COVID-19 pandemic on our business and financial results.

Fiscal 2021 Business Highlights

Our business highlights for the fourth quarter and full year fiscal 2021 include the following:

- During the fourth quarter, we closed eight deals that exceeded \$500,000 in ACV, a record for deals of this size.
- During the fourth quarter, subscription revenue represented 82% of total revenue and subscription gross margin was 77%, the highest levels in our history as a public company.
- During the fourth quarter, we achieved both positive operating cash flow and positive free cash flow for the first time, a key milestone for the company.
- Our subscription revenue was \$242.3 million for the year, an increase of 17% over last fiscal year.
- We improved our total gross margin to 57% for the year, compared to 51% last year, as we shifted more of our services work to our system integrator partners and improved our cost structure.
- Customer transaction volume processed through Zuora's Billing platform was \$56.7 billion during the year, an increase of 29% compared to last fiscal year.

- We grew our business to 676 customers with ACV exceeding \$100,000 as of January 31, 2021, which represents 8% year-over-year growth.
- We hired Todd McElhatton, our Chief Financial Officer in June 2020 and Sri Srinivasan, our Chief Engineering and Product Officer in January 2021.
- We announced new strategic partnerships with Stripe and GoCardless that provide for certain payment-related integrations with the Zuora platform.

For a definition of ACV, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Operational and Financial Metrics.”

Fiscal 2021 Financial Performance Summary

Our financial performance for fiscal 2021, compared to fiscal 2020, reflects the following:

- Subscription revenue was \$242.3 million, an increase of \$35.8 million, or 17%, and total revenue was \$305.4 million, an increase of \$29.4 million, or 11%. This growth reflects our acquisition of new customers as well as increased transaction volume and sales of new products to our existing customers.
- Total cost of revenue decreased to \$130.8 million, or 43% of total revenue, compared to \$134.2 million, or 49% of revenue, last year. We invested additional resources during the year to support the growth in the number of customers as well as the increased activity from existing customers.
- Loss from operations improved to \$73.9 million, or 24% of revenue, compared to a loss of \$85.7 million, or 31% of revenue, last year.

Key Operational and Financial Metrics

We monitor the following key operational and financial metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions:

| | January 31, | |
|---|--------------------|-------------|
| | 2021 | 2020 |
| Customers with ACV equal to or greater than \$100,000 | 676 | 624 |
| Dollar-based retention rate | 100 % | 104 % |

Customers with Annual Contract Value Equal to or Greater than \$100,000

We believe our ability to enter into larger contracts is indicative of broader adoption of our solution by larger organizations. It also reflects our ability to expand our revenue footprint within our current customer base. We define ACV as the subscription revenue we would contractually expect to recognize from that customer over the next twelve months, assuming no increases or reductions in their subscriptions. We define the number of customers at the end of any particular period as the number of parties or organizations that have entered into a distinct subscription contract with us for which the term has not ended. Each party with which we have entered into a distinct subscription contract is considered a unique customer, and in some cases, there may be more than one customer within a single organization. We have increased the number of customers with ACV equal to or greater than \$100,000 to 676 as of January 31, 2021, as compared to 624 as of January 31, 2020.

Dollar-Based Retention Rate

We believe our dollar-based retention rate is a key measure of our ability to retain and expand revenue from our customer base over time. We calculate our dollar-based retention rate as of a period end by starting with the sum of the ACV from all customers as of twelve months prior to such period end, or prior period ACV. We then calculate the sum of the ACV from these same customers as of the current period end, or current period ACV. Current period ACV includes any upsells and also reflects contraction or attrition over the trailing twelve months, but excludes revenue from new customers added in the current period. We then divide the current period ACV by the prior period ACV to arrive at our dollar-based retention rate. Our dollar-based retention rate decreased to 100% as of January 31, 2021, as compared to 104% as of January 31, 2020. While we saw an improvement in dollar-based retention rate during the fourth quarter of fiscal 2021, there was a year-over-year decline primarily due to certain impacts related to the COVID-19 pandemic, including increased churn as some customers renewed with lower transaction volume, experienced business failure, and sought other relief, particularly in the second quarter of fiscal 2021. We expect this higher churn will negatively affect our dollar-based retention rate through the second quarter of fiscal 2022. Additionally, we may continue to experience fluctuations in this metric in the near term due to the uncertainty surrounding the COVID-19 pandemic and its impact on the global economy and our business.

Components of Our Results of Operations

Revenue

Subscription revenue. Subscription revenue consists of fees for access to, and use of, our products, as well as customer support. We generate subscription fees pursuant to non-cancelable subscription agreements with terms that typically range from one to three years. Subscription revenue is primarily based on fees to access our services platform over the subscription term. We typically invoice customers in advance in either annual or quarterly installments. Customers can also elect to purchase additional volume blocks or products during the term of the contract. We typically recognize subscription revenue ratably over the term of the subscription period, beginning on the date that access to our platform is provided, which is generally on or about the date the subscription agreement is signed.

Professional services revenue. Professional services revenue consists of fees for services related to helping our customers deploy, configure, and optimize the use of our solutions. These services include system integration, data migration, process enhancement, and training. Professional services projects generally take three to twelve months to complete. Once the contract is signed, we generally invoice for professional services on a time and materials basis, although we occasionally engage in fixed-price service engagements and invoice for those based upon agreed milestone payments. We recognize revenue as services are performed for time and materials engagements and on a proportional performance method as the services are performed for fixed fee engagements. We expect to transition a portion of our professional services implementations to our strategic partners, including system integrators, and as a result we expect our professional services revenue to decrease over time as a percentage of total revenue.

Deferred Revenue

Deferred revenue consists of customer billings in advance of revenue being recognized from our subscription and support services and professional services arrangements. We primarily invoice our customers for subscription services arrangements annually or quarterly in advance. Amounts anticipated to be recognized within one year of the balance sheet date are recorded as deferred revenue, current portion, and the remaining portion is recorded as deferred revenue, net of current portion in our consolidated balance sheets.

Overhead Allocation and Employee Compensation Costs

We allocate shared costs, such as facilities costs (including rent, utilities, and depreciation on capital expenditures related to facilities shared by multiple departments), information technology costs, and certain administrative personnel costs to all departments based on headcount and location. As such, allocated shared costs are reflected in each cost of revenue and operating expenses category.

Employee compensation costs consist of salaries, bonuses, commissions, benefits, and stock-based compensation.

Cost of Revenue, Gross Profit and Gross Margin

Cost of subscription revenue. Cost of subscription revenue consists primarily of costs related to hosting our platform and providing customer support. These costs include data center costs and third-party hosting fees, employee compensation costs associated with our cloud-based infrastructure and our customer support organizations, amortization expense associated with capitalized internal-use software and purchased technology, allocated overhead, software and maintenance costs, and outside services associated with the delivery of our subscription services. We intend to continue to invest in our platform infrastructure, including third-party hosting capacity, and support organizations. However, the level and timing of investment in these areas could fluctuate and affect our cost of subscription revenue in the future.

Cost of professional services revenue. Cost of professional services revenue consists primarily of costs related to the deployment of our platform. These costs include employee compensation costs for our professional services team, allocated overhead, travel costs, and costs of outside services associated with supplementing our internal staff. We believe that investment in our system integrator partner network will lead to total margin improvement, however costs may fluctuate in the near term as we shift deployments to our partner network.

Gross profit and gross margin. Our gross profit and gross margin may fluctuate from period to period as our revenue fluctuates, and as a result of the timing and amount of investments to expand hosting capacity, including through third-party cloud providers, amortization expense associated with our capitalized internal-use software and purchased technology, and our continued efforts to build platform support and professional services teams.

Operating Expenses

Research and development. Research and development expense consists primarily of employee compensation costs, allocated overhead, and travel costs. We capitalize research and development costs associated with the development of internal-use software and we generally amortize these costs over a period of three years into cost of subscription revenue. All other research and development costs are expensed as incurred. We believe that continued investment in our platform is important for our growth, and as such, expect our research and development expense to continue to increase in absolute dollars for the foreseeable future but may increase or decrease as a percentage of total revenue.

Sales and marketing. Sales and marketing expense consists primarily of employee compensation costs, including the amortization of deferred commissions related to our sales personnel, allocated overhead, costs of general marketing and promotional activities, and travel costs. Commission costs that are incremental to obtaining a contract are amortized in sales and marketing expense over the period of benefit, which is expected to be five years. While our sales and marketing expense as a percentage of total revenue has decreased slightly in recent periods, we expect to continue to make significant investments as we expand our customer acquisition and retention efforts. Therefore, we expect that sales and marketing expense will increase in absolute dollars but may vary as a percentage of total revenue for the foreseeable future.

General and administrative. General and administrative expense consists primarily of employee compensation costs, allocated overhead, and travel costs for finance, accounting, legal, human resources, and recruiting personnel. In addition, general and administrative expense includes non-personnel costs, such as accounting fees, legal fees, charitable contributions and all other supporting corporate expenses not allocated to other departments. We expect to incur ongoing costs as a result of operating as a public company, including costs related to compliance and reporting obligations of public companies, and continued investment to support our growing operations. As a result, we expect our general and administrative expense to continue to increase in absolute dollars for the foreseeable future but may vary as a percentage of total revenue in the near term. Over the long-term, we expect general and administrative expense to decline as a percentage of total revenue as we realize efficiencies.

Interest and Other Income (Expense), net

Interest and other income (expense), net primarily consists of interest income from our investment holdings, interest expense associated with our Debt Agreement, and foreign exchange fluctuations.

Income Tax Provision

Income tax provision consists primarily of income taxes related to foreign and state jurisdictions in which we conduct business. We maintain a full valuation allowance on our federal and state deferred tax assets as we have concluded that it is more likely than not that the deferred assets will not be utilized.

Results of Operations

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

| | Fiscal Year Ended January 31, | |
|--------------------------------|-------------------------------|-------------|
| | 2021 | 2020 |
| | (in thousands) | |
| Revenue: | | |
| Subscription | \$ 242,340 | \$ 206,555 |
| Professional services | 63,080 | 69,502 |
| Total revenue | 305,420 | 276,057 |
| Cost of revenue: | | |
| Subscription | 58,808 | 53,036 |
| Professional services | 71,962 | 81,145 |
| Total cost of revenue | 130,770 | 134,181 |
| Gross profit | 174,650 | 141,876 |
| Operating expenses: | | |
| Research and development | 76,795 | 74,398 |
| Sales and marketing | 116,914 | 108,264 |
| General and administrative | 54,803 | 44,879 |
| Total operating expenses | 248,512 | 227,541 |
| Loss from operations | (73,862) | (85,665) |
| Interest and other income, net | 2,561 | 2,712 |
| Loss before income taxes | (71,301) | (82,953) |
| Income tax provision | 1,873 | 441 |
| Net loss | \$ (73,174) | \$ (83,394) |

| | Fiscal Year Ended January 31, | |
|--------------------------------|-------------------------------|-------|
| | 2021 | 2020 |
| Revenue: | | |
| Subscription | 79 % | 75 % |
| Professional services | 21 | 25 |
| Total revenue | 100 | 100 |
| Cost of revenue: | | |
| Subscription | 19 | 19 |
| Professional services | 24 | 29 |
| Total cost of revenue | 43 | 49 |
| Gross profit | 57 | 51 |
| Operating expenses: | | |
| Research and development | 25 | 27 |
| Sales and marketing | 38 | 39 |
| General and administrative | 18 | 16 |
| Total operating expenses | 81 | 82 |
| Loss from operations | (24) | (31) |
| Interest and other income, net | 1 | 1 |
| Loss before income taxes | (23) | (30) |
| Income tax provision | 1 | — |
| Net loss | (24)% | (30)% |

Note: Percentages in the table above may not sum due to rounding.

Non-GAAP Financial Measures

To supplement our consolidated financial statements presented in accordance with U.S. GAAP, we monitor and consider non-GAAP cost of subscription revenue, non-GAAP cost of professional services revenue, non-GAAP gross profit, non-GAAP research and development expense, non-GAAP sales and marketing expense, non-GAAP general and administrative expense, non-GAAP loss from operations, non-GAAP net loss, non-GAAP net loss per share, and free cash flow. We use non-GAAP financial measures in conjunction with GAAP measures as part of our overall assessment of our performance, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies and to communicate with our Board of Directors concerning our financial performance. We believe our non-GAAP financial measures provide investors consistency and comparability with our past financial performance and facilitate period-to-period comparisons of our operating results. We also believe our non-GAAP financial measures are useful in evaluating our operating performance compared to that of other companies in our industry, as they generally eliminate the effects of certain items that may vary for different companies for reasons unrelated to overall operating performance.

Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. The non-GAAP financial measures we use may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. We compensate for these limitations by providing specific information regarding the GAAP items excluded from our non-GAAP financial measures. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. Reconciliations of our non-GAAP financial measures to the nearest respective GAAP measures are provided below.

We exclude the following items from one or more of our non-GAAP financial measures:

- *Stock-based compensation expense.* We exclude stock-based compensation expense, which is a non-cash expense, because we believe that excluding this item provides meaningful supplemental information regarding operational performance. In particular, stock-based compensation expense is not comparable across companies given it is calculated using a variety of valuation methodologies and subjective assumptions.

- *Amortization of acquired intangible assets.* We exclude amortization of acquired intangible assets, which is a non-cash expense. We exclude these amortization expenses because we do not believe these expenses have a direct correlation to the operation of our business.
- *Internal-use software.* We exclude non-cash adjustments for capitalization and the subsequent amortization of internal-use software, including any impairment charges, from certain of our non-GAAP measures. We capitalize certain costs incurred for the development of computer software for internal use and then amortize those costs over the estimated useful life. Capitalization and amortization of software development costs can vary significantly depending on the timing of products reaching technological feasibility and being made generally available. Moreover, because of the variety of approaches taken and the subjective assumptions made by other companies in this area, we believe that excluding the effects of capitalized software costs allows investors to make more meaningful comparisons between our operating results and those of other companies.
- *Charitable donations.* We exclude expenses associated with charitable donations of our common stock from certain of our non-GAAP financial measures. We believe that excluding these non-cash expenses allows investors to make more meaningful comparisons between our operating results and those of other companies.
- *Certain litigation.* We exclude non-recurring charges and benefits, including litigation expenses and settlements, related to litigation matters that are outside of the ordinary course of our business. We believe these charges and benefits do not have a direct correlation to the operations of our business and may vary in size depending on the timing and results of such litigation and related settlements. We began excluding litigation that is outside of the ordinary course of our business from our non-GAAP financial measures in the second quarter of fiscal 2021 as these expenses significantly increased, specifically expenses relating to our ongoing securities class actions and derivative litigation.
- *New headquarters costs.* We exclude non-recurring costs associated with our new corporate headquarters. In January 2020, we incurred costs associated with water damage, net of insurance recovery, at our new headquarters in Redwood City, California, as well as costs to relocate our operations from other offices to the new headquarters. We expect that the costs related to the water damage and associated insurance recoveries will be fully recognized by the end of our next quarter ending April 30, 2021. We believe that excluding these non-recurring costs allows investors to make more meaningful comparisons between our operating results and those of other companies due to the infrequent nature of these costs.

The following tables provide a reconciliation of our GAAP to Non-GAAP measures:

| Fiscal Year Ended January 31, 2021 | | | | | | | |
|--|-------------|--------------------------|--------------------------------------|-----------------------|-------------------------|--------------------|-------------|
| | GAAP | Stock-based Compensation | Amortization of Acquired Intangibles | Internal-use Software | Charitable Contribution | Certain Litigation | Non-GAAP |
| Cost of revenue: | | | | | | | |
| Cost of subscription revenue | \$ 58,808 | \$ (4,849) | \$ (1,692) | \$ (1,781) | \$ — | \$ — | \$ 50,486 |
| Cost of professional services revenue | 71,962 | (9,952) | — | — | — | — | 62,010 |
| Gross profit | 174,650 | 14,801 | 1,692 | 1,781 | — | — | 192,924 |
| Operating expenses: | | | | | | | |
| Research and development | 76,795 | (19,562) | — | 4,051 | — | — | 61,284 |
| Sales and marketing | 116,914 | (15,839) | — | — | — | — | 101,075 |
| General and administrative | 54,803 | (9,081) | — | 158 | (1,000) | (3,252) | 41,628 |
| Operating loss | (73,862) | 59,283 | 1,692 | (2,428) | 1,000 | 3,252 | (11,063) |
| Net loss | \$ (73,174) | \$ 59,283 | \$ 1,692 | \$ (2,428) | \$ 1,000 | \$ 3,252 | \$ (10,375) |
| Net loss per share, basic and diluted ¹ | \$ (0.62) | | | | | | \$ (0.09) |
| Gross margin | 57 % | | | | | | 63 % |
| Subscription gross margin | 76 % | | | | | | 79 % |

| Fiscal Year Ended January 31, 2020 | | | | | | |
|--|-------------|--------------------------|--------------------------------------|-----------------------|------------------------|-------------|
| | GAAP | Stock-based Compensation | Amortization of Acquired Intangibles | Internal-use Software | New Headquarters Costs | Non-GAAP |
| Cost of revenue: | | | | | | |
| Cost of subscription revenue | \$ 53,036 | \$ (2,772) | \$ (1,776) | \$ (2,560) | \$ (75) | \$ 45,853 |
| Cost of professional services revenue | 81,145 | (7,265) | — | — | (94) | 73,786 |
| Gross profit | 141,876 | 10,037 | 1,776 | 2,560 | 169 | 156,418 |
| Operating expenses: | | | | | | |
| Research and development | 74,398 | (17,568) | — | 4,506 | (150) | 61,186 |
| Sales and marketing | 108,264 | (11,129) | — | — | (43) | 97,092 |
| General and administrative | 44,879 | (6,312) | — | — | (120) | 38,447 |
| Operating loss | (85,665) | 45,046 | 1,776 | (1,946) | 482 | (40,307) |
| Net loss | \$ (83,394) | \$ 45,046 | \$ 1,776 | \$ (1,946) | \$ 482 | \$ (38,036) |
| Net loss per share, basic and diluted ¹ | \$ (0.75) | | | | | \$ (0.34) |
| Gross margin | 51 % | | | | | 57 % |
| Subscription gross margin | 74 % | | | | | 78 % |

(1) Calculated based upon 117,598 and 111,122 weighted-average shares of common stock outstanding during the fiscal year ended January 31, 2021 and 2020, respectively.

Free Cash Flow

We define free cash flow as net cash provided by (used in) operating activities, less cash used for purchases of property and equipment, net of insurance recoveries. Insurance recoveries include amounts paid to us for property and equipment that were damaged in January 2020 at our corporate headquarters. We include the impact of net purchases of property and equipment in our free cash flow calculation because we consider these capital expenditures to be a necessary component of our ongoing operations. We consider free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that can possibly be used for investing in our business and strengthening our balance sheet, but it is not intended to represent the residual cash flow available for discretionary expenditures.

| | Fiscal Year Ended January 31, | |
|--|-------------------------------|--------------------|
| | 2021 | 2020 |
| | (in thousands) | |
| Net cash provided by (used in) operating activities | \$ 11,286 | \$ (3,590) |
| Less: | | |
| Purchases of property and equipment, net of insurance recoveries | (12,156) | (21,424) |
| Free cash flow | <u>\$ (870)</u> | <u>\$ (25,014)</u> |

Fiscal Years Ended January 31, 2021 and 2020

Revenue

| | Fiscal Year Ended January 31, | | \$ Change | % Change |
|------------------------------|-------------------------------|-------------------|------------------|----------|
| | 2021 | 2020 | | |
| | (dollars in thousands) | | | |
| Revenue: | | | | |
| Subscription | \$ 242,340 | \$ 206,555 | \$ 35,785 | 17 % |
| Professional services | 63,080 | 69,502 | (6,422) | (9) % |
| Total revenue | <u>\$ 305,420</u> | <u>\$ 276,057</u> | <u>\$ 29,363</u> | 11 % |
| Percentage of total revenue: | | | | |
| Subscription | 79 % | 75 % | | |
| Professional services | 21 | 25 | | |
| Total | <u>100 %</u> | <u>100 %</u> | | |

Subscription revenue increased by \$35.8 million, or 17%, for fiscal 2021 compared to fiscal 2020. The increase was driven by growth in our customer base, including both new and existing customers, and includes \$2.7 million and \$1.3 million of revenue recognized in fiscal 2021 and 2020, respectively, primarily related to contract resolutions with two customers and customers that elected to extend their on-premise licenses in fiscal 2021 as they transition to our Zuora Revenue cloud offering that will not be recurring in future periods. New customers contributed approximately \$19.5 million of the increase in subscription revenue, excluding the one-time recognition discussed above, for fiscal 2021 compared to the prior year period, while increased transaction volume and sales of additional products to our existing customers contributed the remainder. We calculate subscription revenue from new customers for the fiscal year by adding the revenue recognized from new customers acquired in the 12 months prior to the reporting date.

Professional services revenue decreased by \$6.4 million, or 9%, for fiscal 2021 compared to fiscal 2020 as a result of shifting more services work to our system integrator partners as we improve our sales mix towards recurring subscription revenue.

Cost of Revenue and Gross Margin

| | Fiscal Year Ended January 31, | | \$ Change | % Change |
|-------------------------|-------------------------------|------------|------------|----------|
| | 2021 | 2020 | | |
| (dollars in thousands) | | | | |
| Cost of revenue: | | | | |
| Subscription | \$ 58,808 | \$ 53,036 | \$ 5,772 | 11 % |
| Professional services | 71,962 | 81,145 | (9,183) | (11) % |
| Total cost of revenue | \$ 130,770 | \$ 134,181 | \$ (3,411) | (3) % |
| Gross margin: | | | | |
| Subscription | 76 % | 74 % | | |
| Professional services | (14)% | (17)% | | |
| Total gross margin | 57 % | 51 % | | |

Cost of subscription revenue increased by \$5.8 million, or 11%, for fiscal 2021 compared to fiscal 2020. This was driven by increases of \$3.5 million in data center costs, primarily related to third-party cloud hosting as we grow our customer base and transition our data center model to the cloud, \$2.8 million in employee compensation costs driven by an increase in stock-based compensation expense, and \$0.9 million in allocated overhead primarily due to facilities expansions, partially offset by decreases of \$0.8 million in capitalized internal-use software costs and \$0.4 million in travel costs.

Cost of professional services revenue decreased by \$9.2 million, or 11%, for fiscal 2021 compared to fiscal 2020. This was driven by decreases of \$3.8 million in third-party consulting expenses, \$3.6 million in travel costs, \$1.3 million in compensation costs related to a decrease in headcount, and \$0.6 million in event costs. Cost of professional services decreased as a result of shifting more services work to our system integrator partners.

Our gross margin for subscription services increased to 76% in fiscal 2021 compared to 74% in fiscal 2020 as we improved our cost structure.

Our gross margin for professional services improved to (14)% for fiscal 2021 compared to (17)% for fiscal 2020, primarily due to a decrease in third-party consulting costs as we shifted more of our services work to our system integrator partners to improve our mix towards recurring subscription revenue.

Operating Expenses

Research and Development

| | Fiscal Year Ended January 31, | | \$ Change | % Change |
|-----------------------------|-------------------------------|-----------|-----------|----------|
| | 2021 | 2020 | | |
| (dollars in thousands) | | | | |
| Research and development | \$ 76,795 | \$ 74,398 | \$ 2,397 | 3 % |
| Percentage of total revenue | 25 % | 27 % | | |

Research and development expense increased by \$2.4 million, or 3%, for fiscal 2021 compared to fiscal 2020, primarily due to increases of \$2.2 million in outside professional services, \$2.0 million in stock-based compensation expense, \$0.8 million in allocated overhead primarily due to facilities expansions, \$0.5 million in data center costs, and \$0.5 million in capitalized internal-use software costs, partially offset by decreases of \$2.2 million in employee compensation costs, other than stock-based compensation, resulting from lower headcount and \$1.6 million in travel costs. Research and development expense decreased to 25% of total revenue during fiscal 2021 from 27% during fiscal 2020.

Sales and Marketing

| | Fiscal Year Ended January 31, | | \$ Change | % Change |
|-----------------------------|-------------------------------|------------|-----------|----------|
| | 2021 | 2020 | | |
| | (dollars in thousands) | | | |
| Sales and marketing | \$ 116,914 | \$ 108,264 | \$ 8,650 | 8 % |
| Percentage of total revenue | 38 % | 39 % | | |

Sales and marketing expense increased by \$8.7 million, or 8%, for fiscal 2021 compared to fiscal 2020, primarily due to increases of \$9.8 million in employee compensation costs driven by increases in stock-based compensation expense and commissions expense, \$2.1 million in allocated overhead primarily due to facilities expansions, \$1.3 million in outside professional services, and \$0.6 million in software license costs. These increased costs were partially offset by a decrease of \$5.3 million in travel costs. The increase in sales and marketing expense was primarily driven from investments in our customer success and alliances organizations to focus on customer retention and building our alliance ecosystem. Sales and marketing expense was consistent at 38% of total revenue during fiscal 2021 compared to 39% during fiscal 2020.

General and Administrative

| | Fiscal Year Ended January 31, | | \$ Change | % Change |
|-----------------------------|-------------------------------|-----------|-----------|----------|
| | 2021 | 2020 | | |
| | (dollars in thousands) | | | |
| General and administrative | \$ 54,803 | \$ 44,879 | \$ 9,924 | 22 % |
| Percentage of total revenue | 18 % | 16 % | | |

General and administrative expense increased by \$9.9 million, or 22%, for fiscal 2021 compared to fiscal 2020, primarily due to increases of \$4.4 million in employee compensation costs driven by increases in stock-based compensation expense and bonus expense, \$3.3 million in shareholder litigation expenses, \$1.0 million in donations of our Class A common stock to a charitable donor-advised fund, \$1.0 million in allocated overhead primarily due to facilities expansions, and \$0.6 million in outside professional services costs, partially offset by a decrease of \$0.7 million in travel costs. General and administrative expense increased to 18% of total revenue during fiscal 2021 from 16% during fiscal 2020.

Interest and Other Income, net

| | Fiscal Year Ended January 31, | | \$ Change | % Change |
|--------------------------------|-------------------------------|----------|-----------|----------|
| | 2021 | 2020 | | |
| | (in thousands) | | | |
| Interest and other income, net | \$ 2,561 | \$ 2,712 | \$ (151) | (6) % |

Interest and other income, net decreased by \$0.2 million for fiscal 2021 compared to fiscal 2020, primarily due to a decrease of \$2.4 million in income from short-term investments, offset by a \$2.1 million increase in revaluation gains resulting from assets and liabilities held in a foreign currency.

Income Tax Provision

| | Fiscal Year Ended January 31, | | \$ Change | % Change |
|----------------------|-------------------------------|--------|-----------|----------|
| | 2021 | 2020 | | |
| | (in thousands) | | | |
| Income tax provision | \$ 1,873 | \$ 441 | \$ 1,432 | 325 % |

We are subject to federal and state income taxes in the United States and taxes in foreign jurisdictions. For fiscal 2021 and fiscal 2020 we recorded a tax provision of \$1.9 million and \$0.4 million on losses before income taxes of \$71.3 million and \$83.0 million, respectively. The effective tax rate for fiscal 2021 and fiscal 2020 was 2.6% and 0.5%, respectively. The effective tax rates differ from the statutory rate primarily as a result of providing no

benefit on pretax losses incurred in the United States. For fiscal 2021 and fiscal 2020, we maintained a full valuation allowance on our U.S. federal and state net deferred tax assets as it was more likely than not that those deferred tax assets will not be realized. The decrease in tax expense resulted primarily from a decline in pre-tax earnings in our foreign jurisdictions.

Quarterly Results of Operations

The following table sets forth our unaudited quarterly consolidated statement of operations data for each of the eight quarters presented. The unaudited consolidated statement of operations data set forth below has been prepared on the same basis as our audited consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, that are necessary for the fair presentation of such data. Our historical results are not necessarily indicative of the results that may be expected in the future and the results for any quarter are not necessarily indicative of results to be expected for a full year or any other period. The following quarterly financial data should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this filing:

| | Three Months Ended | | | | | | | |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Jan 31, 2021 | Oct 31, 2020 | Jul 31, 2020 | Apr 30, 2020 | Jan 31, 2020 | Oct 31, 2019 | Jul 31, 2019 | Apr 30, 2019 |
| (dollars in thousands) | | | | | | | | |
| Revenue: | | | | | | | | |
| Subscription | \$ 65,112 | \$ 62,020 | \$ 58,312 | \$ 56,896 | \$ 54,559 | \$ 54,038 | \$ 50,647 | \$ 47,311 |
| Professional services | 14,175 | 15,226 | 16,677 | 17,002 | 15,834 | 17,784 | 19,086 | 16,798 |
| Total revenue | 79,287 | 77,246 | 74,989 | 73,898 | 70,393 | 71,822 | 69,733 | 64,109 |
| Cost of revenue: | | | | | | | | |
| Subscription ¹ | 15,181 | 15,611 | 14,401 | 13,615 | 14,447 | 13,858 | 12,798 | 11,933 |
| Professional services ¹ | 16,951 | 17,655 | 18,674 | 18,682 | 19,700 | 20,443 | 20,904 | 20,098 |
| Total cost of revenue | 32,132 | 33,266 | 33,075 | 32,297 | 34,147 | 34,301 | 33,702 | 32,031 |
| Gross profit | 47,155 | 43,980 | 41,914 | 41,601 | 36,246 | 37,521 | 36,031 | 32,078 |
| Operating expenses: | | | | | | | | |
| Research and development ¹ | 20,918 | 18,907 | 19,427 | 17,543 | 20,736 | 17,903 | 18,744 | 17,015 |
| Sales and marketing ¹ | 31,752 | 28,058 | 28,608 | 28,496 | 27,446 | 28,027 | 27,290 | 25,501 |
| General and administrative ¹ | 13,131 | 13,024 | 15,383 | 13,265 | 12,513 | 10,597 | 11,324 | 10,445 |
| Total operating expenses | 65,801 | 59,989 | 63,418 | 59,304 | 60,695 | 56,527 | 57,358 | 52,961 |
| Loss from operations | (18,646) | (16,009) | (21,504) | (17,703) | (24,449) | (19,006) | (21,327) | (20,883) |
| Interest and other income (expense), net | 599 | (352) | 1,936 | 378 | 418 | 1,190 | 569 | 535 |
| Loss before income taxes | (18,047) | (16,361) | (19,568) | (17,325) | (24,031) | (17,816) | (20,758) | (20,348) |
| Income tax provision (benefit) | 744 | 412 | 554 | 163 | (279) | 421 | 55 | 244 |
| Net loss | \$ (18,791) | \$ (16,773) | \$ (20,122) | \$ (17,488) | \$ (23,752) | \$ (18,237) | \$ (20,813) | \$ (20,592) |

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

| | Three Months Ended | | | | | | | |
|--|---------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Jan 31, 2021</u> | <u>Oct 31, 2020</u> | <u>Jul 31, 2020</u> | <u>Apr 30, 2020</u> | <u>Jan 31, 2020</u> | <u>Oct 31, 2019</u> | <u>Jul 31, 2019</u> | <u>Apr 30, 2019</u> |
| | (in thousands) | | | | | | | |
| Cost of subscription revenue | \$ 1,308 | \$ 1,224 | \$ 1,465 | \$ 852 | \$ 785 | \$ 683 | \$ 811 | \$ 493 |
| Cost of professional services revenue | 2,662 | 2,508 | 3,132 | 1,650 | 2,108 | 1,814 | 1,984 | 1,359 |
| Research and development | 5,161 | 4,914 | 5,945 | 3,542 | 5,878 | 4,015 | 4,484 | 3,191 |
| Sales and marketing | 4,118 | 3,868 | 4,848 | 3,005 | 3,058 | 3,728 | 2,491 | 1,852 |
| General and administrative | 2,101 | 2,259 | 2,886 | 1,835 | 1,804 | 1,598 | 1,846 | 1,064 |
| Total stock-based compensation expense | <u>\$ 15,350</u> | <u>\$ 14,773</u> | <u>\$ 18,276</u> | <u>\$ 10,884</u> | <u>\$ 13,633</u> | <u>\$ 11,838</u> | <u>\$ 11,616</u> | <u>\$ 7,959</u> |

The following table sets forth our unaudited quarterly consolidated results of operations data for each of the periods indicated as a percentage of total revenue.

| | Three Months Ended | | | | | | | |
|--|--------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Jan 31, 2021 | Oct 31, 2020 | Jul 31, 2020 | Apr 30, 2020 | Jan 31, 2020 | Oct 31, 2019 | Jul 31, 2019 | Apr 30, 2019 |
| Revenue: | | | | | | | | |
| Subscription | 82 % | 80 % | 78 % | 77 % | 78 % | 75 % | 73 % | 74 % |
| Professional services | 18 | 20 | 22 | 23 | 22 | 25 | 27 | 26 |
| Total revenue | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Cost of revenue: | | | | | | | | |
| Subscription | 19 | 20 | 19 | 18 | 21 | 19 | 18 | 19 |
| Professional services | 21 | 23 | 25 | 25 | 28 | 28 | 30 | 31 |
| Total cost of revenue | 41 | 43 | 44 | 44 | 49 | 48 | 48 | 50 |
| Gross profit | 59 | 57 | 56 | 56 | 51 | 52 | 52 | 50 |
| Operating expenses: | | | | | | | | |
| Research and development | 26 | 24 | 26 | 24 | 29 | 25 | 27 | 27 |
| Sales and marketing | 40 | 36 | 38 | 39 | 39 | 39 | 39 | 40 |
| General and administrative | 17 | 17 | 21 | 18 | 18 | 15 | 16 | 16 |
| Total operating expenses | 83 | 78 | 85 | 80 | 86 | 79 | 82 | 83 |
| Loss from operations | (24) | (21) | (29) | (24) | (35) | (26) | (31) | (33) |
| Interest and other income (expense), net | 1 | — | 3 | 1 | 1 | 2 | 1 | 1 |
| Loss before income taxes | (23) | (21) | (26) | (23) | (34) | (25) | (30) | (32) |
| Income tax provision (benefit) | 1 | 1 | 1 | — | — | 1 | — | — |
| Net loss | (24)% | (22)% | (27)% | (24)% | (34)% | (25)% | (30)% | (32)% |

Note: Percentages in the table above may not sum due to rounding.

Quarterly Revenue Trends

Our quarterly subscription revenue increased sequentially in each of the periods presented primarily due to growth in our customer base and sales of increased volume and additional products to our existing customers. We have historically entered into more subscription agreements in the fourth quarter of our fiscal year, though this seasonality is sometimes not apparent in our subscription revenue because we recognize subscription revenue over the term of the contract.

Quarterly professional services revenue has decreased as a result of shifting more services work to our system integrator partners. With this shift, we expect our professional services revenue to decrease over time as a percentage of total revenue.

Quarterly Cost of Revenue and Gross Margin Trends

Our quarterly gross margin from subscription revenue has generally been consistent over the fiscal quarters presented. This reflects the growth in the number of customers and the cost of building out the infrastructure for migrating our data center to a fully serviced provider.

Our quarterly gross margin from professional services has generally increased sequentially, as we shifted more of our services work to our system integrator partners to improve our mix towards recurring subscription revenue. We intend to increase our utilization of external partners in the future to augment our implementation services, which may cause further fluctuation in our professional services revenue and related margins.

Quarterly Operating Expenses Trends

Total operating expenses have generally increased sequentially for the fiscal quarters presented, primarily due to higher employee compensation costs driven by stock-based compensation expense, which were partially offset by lower travel costs in fiscal 2021. Additionally, the second, third and fourth quarters of fiscal 2021 reflect higher legal costs as a result of shareholder litigation.

Stock-based compensation expense in the quarters ended July 31, 2020, October 31, 2020 and January 31, 2021 increased due to one-time RSU grants made in light of the COVID-19 pandemic and for retention purposes to eligible non-executive employees, that fully vested during fiscal 2021. These grants contributed a total of \$7.6 million of expense in fiscal 2021. We do not expect any additional expense from these grants as they fully vested in fiscal 2021.

Facilities costs increased toward the latter half of fiscal 2020 as we moved to a larger headquarters facility in Redwood City, California.

Our sales and marketing expense increased primarily due to continued investment in expanding our customer acquisition and retention efforts. In addition, we invested in our customer success and alliances organizations in fiscal 2021. Our sales and marketing expense can also fluctuate between quarters due to the timing of our annual sales kick-off and our annual user conferences, which are typically held in the first and second quarter of the fiscal year, respectively.

Our research and development expense increased primarily due to our continued investment in technology, innovation, and new products.

Our general and administrative expense increased in certain periods primarily due to higher headcount to support our growth and the additional costs related to shareholder litigation expenses. In addition, we donated \$1.0 million of our Class A common stock to a charitable donor-advised fund in the second quarter of fiscal 2021, which increased our general and administrative expense.

Liquidity and Capital Resources

Liquidity is a measure of our ability to access sufficient cash flows to meet the short-term and long-term cash requirements of our business operations.

As of January 31, 2021 and 2020, we had cash and cash equivalents and short-term investments of \$186.6 million and \$171.9 million, respectively, that were primarily invested in deposit accounts, money market funds, corporate debt securities, commercial paper, and U.S. government securities. We don't enter into investments for trading or speculative purposes.

We finance our operations primarily through sales to our customers, which are generally billed in advance on an annual or quarterly basis. Customers with annual or multi-year contracts are generally only billed one annual period in advance. We also finance our operations through proceeds from issuances of stock under our employee stock plans and borrowings under our Debt Agreement. In fiscal 2021, we repaid \$4.4 million of principal on our term loans and have the ability borrow up to an additional \$30.0 million in revolving loans under our Debt Agreement until October 2022. In April 2018, we received \$159.7 million in aggregate net proceeds from our IPO, for use in operating our business.

We believe our existing cash and cash equivalents, short-term investments, cash provided by operating activities and funds available under our Debt Agreement will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. Our future capital requirements will depend on many factors, including revenue growth and costs incurred to support revenue growth, the timing and extent of spending on research and development efforts and other business initiatives, the expansion of sales and marketing activities, the introduction of new and enhanced product offerings, and the continuing market adoption of our products.

We continually evaluate our capital needs and may decide to raise additional capital to fund the growth of our business for general corporate purposes through public or private equity offerings or through additional debt financing. We also may in the future make investments in or acquire businesses or technologies that could require us to seek additional equity or debt financing. To facilitate acquisitions or investments, we may seek additional equity or debt financing, which may not be available on terms favorable to us or at all. Sales of additional equity could result in dilution to our stockholders. We expect proceeds from the exercise of stock options in future years to be impacted by the increased mix of restricted stock units versus stock options granted to employees and to vary based on our share price. The uncertainty created by the changing markets and economic conditions related to the COVID-19 pandemic may also impact our customers' ability to pay us on a timely basis, which could negatively impact our cash flows.

Debt Agreement

See *Note 9. Debt* of the notes to our consolidated financial statements included in this Form 10-K for more information about our Debt Agreement.

Cash Flows

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

| | Fiscal Year Ended January 31, | |
|---|-------------------------------|--------------------|
| | 2021 | 2020 |
| | (in thousands) | |
| Net cash provided by (used in) operating activities | \$ 11,286 | \$ (3,590) |
| Net cash provided by (used in) investing activities | 12,872 | (29,760) |
| Net cash provided by financing activities | 14,981 | 17,980 |
| Effect of exchange rates on cash and cash equivalents | 696 | (379) |
| Net increase (decrease) in cash and cash equivalents | <u>\$ 39,835</u> | <u>\$ (15,749)</u> |

Operating Activities

Net cash provided by operating activities of \$11.3 million in fiscal 2021 was comprised primarily of customer collections for our subscription and professional services, cash payments for our personnel, sales and marketing efforts and infrastructure related costs, and payments to vendors for products and services related to ongoing business operations.

Net cash provided by operations in fiscal 2021 increased \$14.9 million compared to last year as a result of an increase in our gross profit margin resulting from improvements to our cost structure and shifting more services work to our system integrator partners, as well as a decrease in cash operating costs as a result of the COVID-19 pandemic.

Investing Activities

Net cash provided by investing activities for fiscal 2021 was \$12.9 million. We received \$25.0 million in net proceeds from short-term investments as some of our investments were converted to cash equivalents. We used \$12.2 million, net of insurance recoveries, to purchase property and equipment and to develop internal-use software as we continue to invest in and grow our business.

Net cash provided by investing activities for fiscal 2021 increased \$42.6 million compared to last year primarily due to \$25.0 million in net proceeds from short-term investments, compared to \$8.3 million of net purchases of short-term investments last year. Payments for property and equipment, net of insurance recoveries, were \$9.3 million higher last year primarily due to leasehold improvements on our new corporate headquarters.

Financing Activities

Net cash provided by financing activities for fiscal 2021 was \$15.0 million, resulting from \$11.8 million in stock option exercise proceeds and \$7.6 million in proceeds from issuance of common stock under the ESPP, offset by \$4.4 million in debt payments.

Net cash provided by financing activities for fiscal 2021 decreased \$3.0 million compared to last year primarily due to increased principal payments on long-term debt and less proceeds from common stock issuances under the ESPP and stock option exercises in the current fiscal year.

Off-Balance Sheet Arrangements

As of January 31, 2021, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Obligations and Other Commitments

Our principal commitments consist of obligations under our operating leases for office space and our Debt Agreement. The following table summarizes our contractual obligations as of January 31, 2021 (in thousands):

| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|--|-------------------|-------------------------|------------------|------------------|--------------------------|
| Operating lease obligations ¹ | \$ 80,733 | \$ 14,129 | \$ 24,080 | \$ 12,627 | \$ 29,897 |
| Debt principal and interest ² | 6,245 | 4,532 | 1,713 | — | — |
| Other contractual obligations ³ | 13,327 | 13,327 | — | — | — |
| | <u>\$ 100,305</u> | <u>\$ 31,988</u> | <u>\$ 25,793</u> | <u>\$ 12,627</u> | <u>\$ 29,897</u> |

(1) Consists of future non-cancelable minimum rental payments under operating leases for our offices including operating leases that have not yet commenced.

(2) Debt principal and interest includes amounts owed under our Debt Agreement with Silicon Valley Bank including principal, interest and a \$0.2 million facility fee on the term loan. Interest payments were calculated using the applicable rate as of January 31, 2021. See Note 9. Debt of the notes to our consolidated financial statements included in this Form 10-K for more information about our Debt Agreement.

(3) Represents contractual obligations to make purchases, primarily related to cloud computing services, from one of our vendors by September 30, 2021.

In the ordinary course of business, we enter into agreements of varying scope and terms pursuant to which we agree to indemnify customers, vendors, lessors, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of the breach of such agreements, services to be provided by us, or from data breaches or intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as

directors, officers, or employees. No demands have been made upon us to provide indemnification under such agreements and there are no claims that we are aware of that could have a material effect on our consolidated balance sheets, consolidated statements of comprehensive loss, or consolidated statements of cash flows.

As of January 31, 2021, we had accrued liabilities related to uncertain tax positions, which are reflected in our consolidated balance sheets. These accrued liabilities are not reflected in the table above since it is unclear when they will be repaid.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the applicable periods. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe that of our significant accounting policies, which are described in *Note 2. Summary of Significant Accounting Policies* in of our consolidated financial statements contained herein, the following accounting policy includes estimates and assumptions with a greater degree of judgment and complexity.

Revenue Recognition Policy

Our revenue recognition policy follows guidance from Topic 606, *Revenue from Contracts with Customers*, and is described in *Note 2. Summary of Significant Accounting Policies* to the consolidated financial statements contained herein. We derive our revenue primarily from subscription fees and professional services fees. Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as one unit of accounting may require significant judgment.

Our cloud-based software subscriptions are distinct as such services are often sold separately. In addition, our subscription services contracts can include multi-year agreements that include a fixed annual platform fee and a volume block usage fee that may vary based on permitted volume usage each year. To the extent that permitted volume usage each year is the same, we concluded that there is one multi-year stand-ready performance obligation. To the extent that permitted volume usage each year varies, we concluded that each year represents a distinct stand-ready performance obligations and we allocate the transaction price to the performance obligations on a relative standalone-selling price basis and revenue is recognized ratably over each year.

In determining whether professional services are distinct, we consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the cloud-based software, start date and the contractual dependence of the cloud-based software on the customer's satisfaction with the professional services work. To date, we have concluded that all of the professional services included in contracts with multiple performance obligations are distinct.

The determination of standalone selling price ("SSP") for each distinct performance obligation requires judgment. We establish SSP for both our subscription services and professional services elements primarily by considering the actual sales prices of the element when sold on a stand-alone basis or when sold together with other elements. Our actual sales prices for subscription services and professional services for stand-alone sales do not typically vary from our prices for each element when sold together with other elements. When we are unable to rely on actual observable SSPs, we determine SSP based on inputs such as actual sales prices when sold together with other promised subscriptions or services and our overarching pricing objectives and strategies.

Recent Accounting Pronouncements—Adopted in Fiscal 2021

See "Summary of Significant Accounting Policies and Recent Accounting Pronouncements" in *Note 2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements* of our accompanying consolidated financial statements for more information.

Recent Accounting Pronouncements—Not Yet Adopted

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by removing certain exceptions to the general principles in the existing guidance for income taxes and making other minor improvements. The amendments in the ASU are effective for us on February 1, 2021. We are currently evaluating the impact of adopting this standard and do not expect the adoption to have a material impact on our consolidated financial statements.

Recent SEC Rule Changes

In August 2020, the SEC issued final rules 33-10825 and 34-89670 *Modernization of Regulation S-K Items 101, 103, and 105*, which amend the disclosure requirements in Item 101, Description of Business; Item 103, Legal Proceedings; and Item 105, Risk Factors of Regulation S-K. Consistent with the SEC's ongoing efforts to modernize Regulation S-K disclosure requirements, the amendments aim to improve the readability of disclosures, reduce repetition, and eliminate immaterial information. Amendments to disclosure requirements include changes to the description of business and risk factors to a principles-based approach, providing more flexibility to tailor disclosures, while disclosure amendments to legal proceedings continue to reflect the current, more prescriptive approach. The final rules are effective for all annual reports filed on or after November 9, 2020. We have reflected the changes throughout this Annual Report on Form 10-K.

In November 2020, the SEC issued final rules 33-10890 and 34-90459 *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*, which modernizes and simplifies certain disclosure requirements of Regulation S-K. Certain key rule amendments eliminate the requirement to disclose Selected Financial Data; Selected Quarterly Financial Data, with certain exceptions; the impact of inflation and changing prices, provided the impact is not material; off-balance sheet arrangements in tabular form; and the aggregate amount of contractual obligations in tabular form. The final rules also amended various aspects of Item 303, "Management's Discussion and Analysis of Financial Condition and Results of Operations," among others. The final rules are effective for all registration statements, annual reports and quarterly reports filed on or after August 9, 2021, with early adoption permitted. We are currently evaluating the impact of the disclosure changes on our Annual Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates.

Foreign Currency Exchange Risk

Our sales contracts are denominated predominantly in U.S. Dollars, Euros (EUR), and British Pounds (GBP). A portion of our operating expenses are incurred outside the United States and denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the EUR and GBP. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our consolidated statement of comprehensive loss. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our historical consolidated financial statements for the years ended January 31, 2021 and 2020. Given 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 should become more significant. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

Interest Rate Risk

We had cash and cash equivalents and short-term investments of \$186.6 million as of January 31, 2021. Our cash and cash equivalents and short-term investments are held for working capital purposes. We do not make investments for trading or speculative purposes. Additionally, under our Debt Agreement, we pay interest on any outstanding balances based on a variable market rate. A significant change in these market rates may adversely affect our operating results.

Our cash equivalents and short-term investments are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely affected due to a rise in interest rates. Due in part to these factors, our future investment income may fall short of our expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our short-term investments as “available-for-sale,” no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or decreases in fair value are determined to be other-than-temporary.

As of January 31, 2021, a hypothetical 10% relative change in interest rates would not have had a material impact on the value of our cash equivalents and short-term investments or interest owed on our outstanding debt. Fluctuations in the value of our cash equivalents and short-term investments caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities prior to maturity. In addition, a hypothetical 10% relative change in interest rates would not have had a material impact on our operating results for fiscal 2021.

Item 8. Financial Statements and Supplementary Data

Index To Consolidated Financial Statements

| | <u>Page</u> |
|---|--------------------|
| Report of Independent Registered Public Accounting Firm | 71 |
| Consolidated Balance Sheets | 73 |
| Consolidated Statements of Comprehensive Loss | 74 |
| Consolidated Statements of Stockholders' Equity | 75 |
| Consolidated Statements of Cash Flows | 77 |
| Notes to Consolidated Financial Statements | 79 |

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Zuora, Inc.:

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

We have audited the accompanying consolidated balance sheets of Zuora, Inc. and subsidiaries (the Company) as of January 31, 2021 and 2020, the related consolidated statements of comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended January 31, 2021, and the related notes (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 2 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 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.

Evaluation of standalone-selling prices (SSPs) for subscription services and professional services performance obligations

As discussed in Note 2 to the consolidated financial statements, the Company recognized subscription revenue and professional services revenue of \$242 million and \$63 million, respectively, for the fiscal year ended January 31, 2021. The Company allocates the transaction price to each performance obligation on a relative SSP basis. The SSP is the estimated price at which the Company would sell a promised product or service separately to a customer. The Company establishes SSPs for its subscription services and professional services performance obligations primarily by considering the actual sales prices of the promised product or service when sold on a stand-alone basis. When the Company is unable to rely on actual observable SSPs, it estimates the SSP utilizing inputs such as actual sales prices when sold together with other promised goods or services and other factors such as its overarching pricing objectives and strategies.

We identified the evaluation of SSPs for subscription services and professional services performance obligations as a critical audit matter. A high degree of subjective auditor judgment was required to evaluate the Company's inputs and factors used to estimate the SSPs, including sales prices for bundled arrangements, overarching pricing objectives and strategies, list prices, and historical sales pricing of the deliverables.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's revenue process, including controls over the development of SSPs and the relevance and reliability of the underlying data. For a selection of revenue transactions, we compared the historical sales information, including price and product category attributes, used by the Company to determine SSPs to underlying customer contracts. We compared the range of prices used to establish the SSPs to historical sales prices for bundled arrangements. We assessed the Company's determination that bundled prices were indicative of SSP taking into consideration list prices, historical sales of the deliverables, and pricing objectives and strategies. We interviewed the Company's internal pricing team to obtain an understanding of the Company's pricing objectives and strategies.

/s/ KPMG LLP

We have served as the Company's auditor since 2011.

Santa Clara, CA
March 31, 2021

ZUORA, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

| | January 31, | |
|---|-------------------|-------------------|
| | 2021 | 2020 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 94,110 | \$ 54,275 |
| Short-term investments | 92,484 | 117,662 |
| Accounts receivable, net of allowance for credit losses of \$4,522 and \$2,943 as of January 31, 2021 and January 31, 2020, respectively | 78,860 | 68,875 |
| Deferred commissions, current portion | 12,712 | 9,585 |
| Prepaid expenses and other current assets | 15,574 | 16,387 |
| Total current assets | 293,740 | 266,784 |
| Property and equipment, net | 33,369 | 33,489 |
| Operating lease right-of-use assets | 47,085 | 54,286 |
| Purchased intangibles, net | 3,928 | 5,620 |
| Deferred commissions, net of current portion | 21,905 | 19,591 |
| Goodwill | 17,632 | 17,632 |
| Other assets | 3,848 | 4,825 |
| Total assets | <u>\$ 421,507</u> | <u>\$ 402,227</u> |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,249 | \$ 2,098 |
| Accrued expenses and other current liabilities | 14,550 | 17,731 |
| Accrued employee liabilities | 29,470 | 24,193 |
| Debt, current portion | 4,397 | 4,432 |
| Deferred revenue, current portion | 127,701 | 111,411 |
| Operating lease liabilities, current portion | 9,630 | 5,755 |
| Total current liabilities | 187,997 | 165,620 |
| Debt, net of current portion | 1,666 | 6,094 |
| Deferred revenue, net of current portion | 1,529 | 1,007 |
| Operating lease liabilities, net of current portion | 53,590 | 62,307 |
| Deferred tax liabilities | 1,929 | 1,569 |
| Other long-term liabilities | 2,883 | 971 |
| Total liabilities | 249,594 | 237,568 |
| Commitments and contingencies (Note 13) | | |
| Stockholders' equity: | | |
| Class A common stock - \$0.0001 par value; 500,000 shares authorized, 109,900 and 97,134 shares issued and outstanding as of January 31, 2021 and 2020, respectively. | 11 | 10 |
| Class B common stock - \$0.0001 par value; 500,000 shares authorized, 11,004 and 17,348 shares issued and outstanding as of January 31, 2021 and 2020, respectively. | 1 | 2 |
| Additional paid-in capital | 635,127 | 555,307 |
| Accumulated other comprehensive income | 796 | 188 |
| Accumulated deficit | (464,022) | (390,848) |
| Total stockholders' equity | 171,913 | 164,659 |
| Total liabilities and stockholders' equity | <u>\$ 421,507</u> | <u>\$ 402,227</u> |

See notes to consolidated financial statements.

ZUORA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands, except per share data)

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|-------------|-------------|
| | 2021 | 2020 | 2019 |
| Revenue: | | | |
| Subscription | \$ 242,340 | \$ 206,555 | \$ 164,805 |
| Professional services | 63,080 | 69,502 | 70,184 |
| Total revenue | 305,420 | 276,057 | 234,989 |
| Cost of revenue: | | | |
| Subscription | 58,808 | 53,036 | 42,993 |
| Professional services | 71,962 | 81,145 | 73,597 |
| Total cost of revenue | 130,770 | 134,181 | 116,590 |
| Gross profit | 174,650 | 141,876 | 118,399 |
| Operating expenses: | | | |
| Research and development | 76,795 | 74,398 | 54,417 |
| Sales and marketing | 116,914 | 108,264 | 95,169 |
| General and administrative | 54,803 | 44,879 | 39,230 |
| Total operating expenses | 248,512 | 227,541 | 188,816 |
| Loss from operations | (73,862) | (85,665) | (70,417) |
| Interest and other income (expense), net | 2,561 | 2,712 | (417) |
| Loss before income taxes | (71,301) | (82,953) | (70,834) |
| Income tax provision | 1,873 | 441 | 1,907 |
| Net loss | (73,174) | (83,394) | (72,741) |
| Comprehensive loss: | | | |
| Foreign currency translation adjustment | 696 | (379) | 3 |
| Unrealized (loss) gain on available-for-sale securities, net of tax | (88) | 86 | 7 |
| Comprehensive loss | \$ (72,566) | \$ (83,687) | \$ (72,731) |
| Net loss per share, basic and diluted | \$ (0.62) | \$ (0.75) | \$ (0.80) |
| Weighted-average shares outstanding used in calculating net loss per share, basic and diluted | 117,598 | 111,122 | 91,267 |

See notes to consolidated financial statements.

ZUORA, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

| | Convertible Preferred Stock | | Class A Common Stock | | Class B Common Stock | | Additional Paid-in Capital | Related Party Receivable | Accumulated Other Comprehensive Income | Accumulated Deficit | Total Stockholders' Equity |
|---|-----------------------------|--------|----------------------|--------|----------------------|--------|----------------------------|--------------------------|--|---------------------|----------------------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | | |
| Balance, January 31, 2018 | 61,984 | \$ 6 | — | \$ — | 30,524 | \$ 3 | \$ 286,152 | \$ (1,281) | \$ 471 | \$ (234,713) | \$ 50,638 |
| Conversion of convertible preferred stock to common stock in connection with initial public offering | (61,984) | (6) | — | — | 61,984 | 6 | — | — | — | — | — |
| Conversion of Class B common stock to Class A common stock | — | — | 63,469 | 7 | (63,469) | (7) | — | — | — | — | — |
| Issuance of common stock in connection with initial public offering, net of underwriting discounts and issuance costs | — | — | 12,650 | 1 | — | — | 159,456 | — | — | — | 159,457 |
| Issuance of common stock upon exercise of stock options | — | — | 369 | — | 3,271 | 1 | 9,394 | — | — | — | 9,395 |
| Lapse of restrictions on common stock related to early exercise of stock options | — | — | — | — | — | — | 2,088 | — | — | — | 2,088 |
| Related party notes receivable | — | — | — | — | — | — | — | 1,281 | — | — | 1,281 |
| RSU releases | — | — | 138 | — | 265 | — | — | — | — | — | — |
| Purchases of common stock under the ESPP | — | — | 446 | — | — | — | 5,329 | — | — | — | 5,329 |
| Charitable donation of stock | — | — | 47 | — | — | — | 1,000 | — | — | — | 1,000 |
| Stock-based compensation | — | — | — | — | — | — | 25,357 | — | — | — | 25,357 |
| Other comprehensive income | — | — | — | — | — | — | — | — | 10 | — | 10 |
| Net loss | — | — | — | — | — | — | — | — | — | (72,741) | (72,741) |
| Balance, January 31, 2019 | — | \$ — | 77,119 | \$ 8 | 32,575 | \$ 3 | \$ 488,776 | \$ — | \$ 481 | \$ (307,454) | \$ 181,814 |
| Conversion of Class B common stock to Class A common stock | — | — | 18,398 | 1 | (18,398) | (1) | — | — | — | — | — |
| Issuance of common stock upon exercise of stock options, net of repurchases | — | — | (25) | — | 2,980 | — | 12,055 | — | — | — | 12,055 |
| Lapse of restrictions on common stock related to early exercise of stock options | — | — | — | — | — | — | 412 | — | — | — | 412 |
| RSU releases | — | — | 893 | — | 191 | — | — | — | — | — | — |
| Purchases of common stock under the ESPP | — | — | 749 | 1 | — | — | 8,980 | — | — | — | 8,981 |
| Stock-based compensation | — | — | — | — | — | — | 45,046 | — | — | — | 45,046 |
| Deferred offering costs | — | — | — | — | — | — | 38 | — | — | — | 38 |
| Other comprehensive loss | — | — | — | — | — | — | — | — | (293) | — | (293) |
| Net loss | — | — | — | — | — | — | — | — | — | (83,394) | (83,394) |
| Balance, January 31, 2020 | — | \$ — | 97,134 | \$ 10 | 17,348 | \$ 2 | \$ 555,307 | \$ — | \$ 188 | \$ (390,848) | \$ 164,659 |

| | | | | | | | | | | | |
|--|---|------|---------|-------|---------|------|------------|------|--------|--------------|------------|
| Conversion of Class B common stock to Class A common stock | — | — | 9,176 | 1 | (9,176) | (1) | — | — | — | — | — |
| Issuance of common stock upon exercise of stock options, net of repurchases | — | — | 8 | — | 2,714 | — | 11,784 | — | — | — | 11,784 |
| Lapse of restrictions on common stock related to early exercise of stock options | — | — | — | — | — | — | 116 | — | — | — | 116 |
| RSU releases | — | — | 2,778 | — | 118 | — | — | — | — | — | — |
| Purchases of common stock under the ESPP | — | — | 730 | — | — | — | 7,637 | — | — | — | 7,637 |
| Charitable donation of stock | — | — | 74 | — | — | — | 1,000 | — | — | — | 1,000 |
| Stock-based compensation | — | — | — | — | — | — | 59,283 | — | — | — | 59,283 |
| Other comprehensive income | — | — | — | — | — | — | — | — | 608 | — | 608 |
| Net loss | — | — | — | — | — | — | — | — | — | (73,174) | (73,174) |
| Balance, January 31, 2021 | — | \$ — | 109,900 | \$ 11 | 11,004 | \$ 1 | \$ 635,127 | \$ — | \$ 796 | \$ (464,022) | \$ 171,913 |

See notes to consolidated financial statements.

ZUORA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

| | Fiscal Year Ended January 31, | | |
|--|-------------------------------|-------------|-------------|
| | 2021 | 2020 | 2019 |
| Cash flows from operating activities: | | | |
| Net loss | \$ (73,174) | \$ (83,394) | \$ (72,741) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation, amortization and accretion | 15,308 | 11,866 | 8,228 |
| Stock-based compensation | 59,283 | 45,046 | 25,357 |
| Provision for credit losses | 3,686 | 3,887 | 3,949 |
| Donation of common stock to charitable foundation | 1,000 | — | 1,000 |
| Amortization of deferred commissions | 12,401 | 9,515 | 7,959 |
| Reduction in carrying amount of right-of-use assets | 8,265 | 8,584 | — |
| Other | 73 | 1,643 | 147 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (13,671) | (14,504) | (12,443) |
| Prepaid expenses and other assets | 895 | (4,180) | (5,825) |
| Deferred commissions | (17,842) | (11,411) | (13,556) |
| Accounts payable | 106 | 417 | (1,103) |
| Accrued expenses and other liabilities | 53 | 627 | 5,856 |
| Accrued employee liabilities | 7,065 | 1,590 | 4,902 |
| Deferred revenue | 16,812 | 25,522 | 24,689 |
| Operating lease liabilities | (8,974) | 1,202 | — |
| Net cash provided by (used in) operating activities | 11,286 | (3,590) | (23,581) |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (13,144) | (21,424) | (13,412) |
| Insurance proceeds for damaged property and equipment | 988 | — | — |
| Purchases of short-term investments | (97,363) | (184,633) | (107,464) |
| Sales of short-term investments | 2,511 | 3,497 | — |
| Maturities of short-term investments | 119,880 | 172,800 | — |
| Business combination, net of cash acquired | — | — | (247) |
| Net cash provided by (used in) investing activities | 12,872 | (29,760) | (121,123) |
| Cash flows from financing activities: | | | |
| Payments under capital leases | — | — | (3,623) |
| Proceeds from issuance of common stock upon exercise of stock options, net of repurchases of unvested common stock | 11,784 | 11,960 | 11,463 |
| Payments of offering costs | — | — | (4,399) |
| Proceeds of issuance of common stock under employee stock purchase plan | 7,637 | 8,980 | 5,329 |
| Proceeds from initial public offering, net of underwriters' discounts and commissions | — | — | 164,703 |
| Payments under related party notes receivable | — | — | (4,344) |
| Repayments of related party notes receivable | — | — | 5,625 |
| Principal payments on long-term debt | (4,440) | (2,960) | (834) |
| Payments related to business combination | — | — | (12,558) |
| Net cash provided by financing activities | 14,981 | 17,980 | 161,362 |
| Effect of exchange rates on cash and cash equivalents and restricted cash | 696 | (379) | 3 |
| Net increase (decrease) in cash and cash equivalents and restricted cash | 39,835 | (15,749) | 16,661 |
| Cash and cash equivalents and restricted cash, beginning of year | 54,275 | 70,024 | 53,363 |
| Cash and cash equivalents and restricted cash, end of year | \$ 94,110 | \$ 54,275 | \$ 70,024 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | \$ 262 | \$ 595 | \$ 963 |

| | | | |
|--|----------|----------|----------|
| Cash paid for tax | \$ 1,159 | \$ 836 | \$ 755 |
| Supplemental disclosure of non-cash investing and financing activities: | | | |
| Lapse in restrictions on early exercised common stock options | \$ 116 | \$ 412 | \$ 2,088 |
| Property and equipment purchases accrued or in accounts payable | \$ 70 | \$ 3,611 | \$ 307 |
| Deferred offering costs payable or accrued but not paid | \$ — | \$ — | \$ 210 |

See notes to consolidated financial statements.

ZUORA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Overview and Basis of Presentation

Description of Business

Zuora, Inc. was incorporated in the state of Delaware in 2006 and began operations in 2007. Zuora's fiscal year ends on January 31. Zuora is headquartered in Redwood City, California.

Zuora provides a cloud-based subscription management platform, architected specifically for dynamic, recurring business models. Our solution enables companies across multiple industries and geographies to launch, manage and scale a subscription business, automating the entire subscription order-to-revenue process, including billing, collections and revenue recognition. With Zuora's solution, businesses can change pricing and packaging for products and services to grow and scale, efficiently comply with revenue recognition standards, analyze customer data to optimize their subscription offerings, and build meaningful relationships with their subscribers.

References to "Zuora", "us", "our", or "we" in these notes refer to Zuora, Inc. and its subsidiaries on a consolidated basis.

Initial Public Offering

In April 2018, we completed an IPO, in which we issued and sold an aggregate of 12.7 million shares of our newly authorized Class A common stock at a price to the public of \$14.00 per share. The shares sold included 1.7 million shares pursuant to the exercise by the underwriters of an option to purchase additional shares at a price of \$14.00 per share. We received aggregate net proceeds of \$159.7 million from the IPO after deducting underwriting discounts and commissions and payments of offering costs.

Prior to the completion of the IPO, 30.5 million shares of common stock then outstanding were reclassified as Class B common stock, and all shares of convertible preferred stock outstanding immediately prior to the IPO were converted into 62.0 million shares of Class B common stock on a one-to-one basis.

Basis of Presentation and Principles of Consolidation

The accompanying consolidated financial statements, which include the accounts of Zuora and its wholly owned subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP principles requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, as well as reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates. Our most significant estimates and assumptions are related to revenue recognition with respect to the determination of the relative standalone selling prices for our services; the expected period of benefit over which deferred commissions are amortized; determination of the fair value of our common stock for valuation of stock-based awards issued prior to the completion of the IPO; valuation of stock-based awards; estimates of allowance for credit losses; estimates of the fair value of goodwill; useful lives of intangibles and other long-lived assets; and the valuation of deferred income tax assets and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ materially from these estimates under different assumptions or conditions.

Foreign Currency

The functional currencies of our foreign subsidiaries are the respective local currencies. Translation adjustments arising from the use of differing exchange rates from period to period are included in accumulated other comprehensive income within our consolidated balance sheets. Foreign currency transaction gains and losses are included in interest and other income (expense), net in the consolidated statements of comprehensive loss and were not material for fiscal 2021, 2020 and 2019. All assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the exchange rate on the balance sheet date. Revenue and expenses are translated at the average exchange rate during the period, and equity balances are translated using historical exchange rates.

Segment Information

We operate as one operating segment. Our chief operating decision maker is our Chief Executive Officer, who primarily reviews financial information presented on a consolidated basis for purposes of making operating decisions, assessing financial performance, and allocating resources.

Note 2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements

Revenue Recognition Policy

We generate revenue primarily from two sources: (1) subscription services, which is comprised of revenue from subscription fees from customers accessing our cloud-based software; and (2) professional services and other revenue. For the year ended January 31, 2021, subscription revenue was \$242.3 million and professional services and other revenue was \$63.1 million.

Revenue is recognized upon satisfaction of performance obligations in an amount that reflects the consideration we expect to receive in exchange for those products or services.

We determine the amount of revenue to be recognized through application of the following steps:

- Identification of the contract, or contracts with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as we satisfy the performance obligations.

Our subscription service arrangements are typically non-cancelable for a pre-specified subscription term and do not typically contain refund-type provisions.

Subscription Services

Subscription services revenue is primarily comprised of fees that provide customers with access to our cloud-based software during the term of the arrangement. Cloud-based services typically allow our customers to use our multi-tenant software without taking possession of the software. Revenue is generally recognized ratably over the contract term beginning on the commencement date of each contract, which is the date our cloud-based software is made available to customers. We generally invoice for subscription services annually or quarterly in advance of services being performed.

On-Premise Arrangements

We inherited some legacy on-premise license arrangements when we acquired a business in fiscal 2018. These licenses are primarily term based and bundled with related maintenance (PCS). Revenue for the software license is generally recognized at the beginning of the contract term and the PCS is recognized ratably over the contract term.

Subscription and on-premise license agreements generally have terms ranging from one to three years and are invoiced to customers annually or quarterly in advance upon execution of the contract or subsequent renewals. Amounts that have been invoiced are recorded in accounts receivable and in either deferred revenue or revenue in our consolidated financial statements, depending on whether the underlying performance obligation has been satisfied.

Professional Services and Other Revenue

Professional services revenue consists of fees for services related to helping our customers deploy, configure, and optimize the use of our solutions. These services include system integration, data migration, process enhancement, and training. Professional services projects generally take three to twelve months to complete. Once the contract is signed, we generally invoice for professional services on a time and materials basis, although we occasionally engage in fixed-price service engagements and invoice for those based upon agreed milestone payments. We recognize revenue as services are performed for time and materials engagements and on a proportional performance method as the services are performed for fixed fee engagements. Training revenue is recognized as the services are performed.

Contracts with Multiple Performance Obligations

We enter into contracts with our customers that often include cloud-based software subscriptions and professional services performance obligations. A performance obligation is a commitment in a contract with a customer to transfer products or services that are distinct. Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as one unit of accounting may require judgment.

Our cloud-based software subscriptions are distinct as such services are often sold separately. In addition, our subscription services contracts can include multi-year agreements that include a fixed annual platform fee and a volume block usage fee that may vary based on permitted volume usage each year. To the extent that permitted volume usage each year is the same, we have concluded that there is one multi-year stand-ready performance obligation. To the extent that permitted volume usage each year varies, we have concluded that each year represents a distinct stand-ready performance obligations and we allocate the transaction price to the performance obligations on a relative standalone-selling price basis and revenue is recognized ratably over each year.

We consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the cloud-based software, start date and the contractual dependence of the cloud-based software on the customer's satisfaction with the professional services work. To date, we have concluded that all of the professional services included in contracts with multiple performance obligations are distinct.

We allocate the transaction price to each performance obligation on a relative standalone selling price (SSP) basis. The SSP is the estimated price at which we would sell a promised product or service separately to a customer. Judgment is required to determine the SSP for each distinct performance obligation.

We establish SSP for both our subscription services and professional services elements primarily by considering the actual sales prices of the element when sold on a stand-alone basis or when sold together with other elements. If we are unable to rely on actual observable sales inputs, we determine SSP based on inputs such as actual sales prices when sold together with other promised subscriptions or services and other factors such as our overarching pricing objectives and strategies.

Deferred Commissions

We capitalize sales commission expenses and associated payroll taxes paid to internal sales personnel that are incremental to obtaining customer contracts. These costs are deferred and then amortized over the expected period of benefit, which is estimated to be five years for new customers. Commissions for existing customer renewals are deferred and amortized over twelve months. We have determined the period of benefit taking into consideration several factors including the expected subscription term and expected renewals of our customer contracts, the duration of our relationships with our customers, and the life of our technology. Amortization expense is included in *Sales and marketing* in the accompanying consolidated statements of comprehensive loss.

Contract Assets

Subscription services revenue is generally recognized ratably over the contract term beginning on the commencement date of each contract. Contract assets are included in Prepaid expenses and other current assets and Other assets in our consolidated balance sheets. The total value of our contract assets was \$1.4 million and \$2.8 million as of January 31, 2021 and 2020, respectively.

For further detail regarding our remaining performance obligations please refer to *Note 10. Deferred Revenue and Performance Obligations*.

Cost of Revenue

Cost of subscription revenue primarily consists of costs relating to the hosting of our cloud-based software platform, including salaries and benefits of technical operations and support personnel, data communications costs, allocated overhead and property and equipment depreciation, amortization of internal-use software and purchased intangibles and the reduction in the carrying amount of ROU assets.

Cost of professional services revenue primarily consists of the costs of delivering implementation services to customers of our cloud-based software platform, including salaries and benefits of professional services personnel and fees for third-party resources used in the delivery of implementation services.

Advertising Expense

Advertising costs are expensed as incurred. For the periods presented, advertising expense was not material.

Concentrations of Credit Risk and Significant Clients and Suppliers

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable. We deposit our cash and short-term investments primarily with one financial institution and, accordingly, such deposits regularly exceed federally insured limits.

No single customer accounted for more than 10% of Zuora's revenue or accounts receivable balance in any of the periods presented.

Cash and Cash Equivalents

We consider all highly liquid investments with original or remaining maturities of three months or less on the purchase date to be cash equivalents. Cash and cash equivalents carrying value approximate fair value and consist primarily of bank deposits and money market funds.

Restricted cash consists of letters of credit held with a financial institution related to our facility and equipment leases, and are classified as current or long-term in our consolidated balance sheets based on the maturities of the underlying letters of credit. We had no restricted cash as of January 31, 2021 and 2020.

Short-term Investments

We typically invest in high quality, investment grade securities from diverse issuers. We classify our short-term investments as available-for-sale. In general, these investments are free of trading restrictions. We carry these investments at fair value, based on quoted market prices or other readily available market information. Unrealized gains and losses, net of taxes, are included in accumulated other comprehensive income, which is reflected as a separate component of stockholders' equity in our consolidated balance sheets. Gains and losses are recognized when realized in our consolidated statements of comprehensive loss. When we have determined that an other-than-temporary decline in fair value has occurred, the amount of the decline that is related to a credit loss is recognized in income. Gains and losses are determined using the specific identification method.

We review our debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. We consider factors such as the length of time and extent to which the market value has been less than the cost, the financial condition and near-term prospects of the issuer and our intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's amortized cost basis. If we believe that an other-than-temporary decline exists in one of these securities, we will write down these investments to fair value. The portion of the write-down related to credit loss would be recorded to interest and other income (expense), net in our consolidated statements of comprehensive loss. Any portion not related to credit loss would be recorded to accumulated other comprehensive income, which is reflected as a separate component of stockholders' equity in our consolidated balance sheets.

We may sell our short-term investments at any time, without significant penalty, for use in current operations or for other purposes, even if they have not yet reached maturity. As a result, we have classified our investments, including any securities with maturities beyond 12 months, as current assets in the accompanying consolidated balance sheets.

Accounts Receivable

Our accounts receivable consists of client obligations due under normal trade terms, and are reported at the principal amount outstanding, net of the allowance for credit losses. We maintain an allowance for credit losses that is based upon historical loss patterns, the number of days that billings are past due, and an evaluation of the potential risk of loss related to problem accounts.

The allowance for credit losses consists of the following activity (in thousands):

| | Fiscal Year Ended January 31, | |
|--|-------------------------------|-----------------|
| | 2021 | 2020 |
| Allowance for credit losses, beginning balance | \$ 2,943 | \$ 2,522 |
| Additions: | | |
| Charged to revenue | 3,686 | 3,887 |
| Charged to deferred revenue | 2,666 | 2,092 |
| Deductions: | | |
| Write-offs to revenue | (2,865) | (4,634) |
| Write-offs to deferred revenue | (1,908) | (924) |
| Allowance for credit losses, ending balance | <u>\$ 4,522</u> | <u>\$ 2,943</u> |

Property and Equipment, Net

Property and equipment are stated at cost. Depreciation is calculated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are depreciated over the shorter of their remaining related lease term or estimated useful life. When assets are retired, the cost and accumulated depreciation are removed from their respective accounts, and any gain or loss on such sale or disposal is reflected in operating expenses in the accompanying consolidated statements of comprehensive loss.

Business Combinations

When we acquire a business, management allocates the purchase price to the net tangible and identifiable intangible assets acquired. Any residual purchase price is recorded as goodwill. The allocation of the purchase price requires management to make significant estimates in determining the fair values of assets acquired and liabilities assumed, especially with respect to intangible assets. These estimates can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted average cost of capital, and the cost savings expected to be derived from acquiring an asset. These estimates are inherently uncertain and unpredictable.

Goodwill, Acquired Intangible Assets, Internal-Use Software and Web Site Development Costs, and Impairment of Long-Lived Assets

Goodwill. Goodwill represents the excess purchase consideration of an acquired business over the fair value of the net tangible and identifiable intangible assets. Goodwill is evaluated for impairment annually on December 1, and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. Triggering events that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate or a significant decrease in expected cash flows. An impairment loss is recognized to the extent that the carrying amount exceeds the reporting unit's fair value, not to exceed the carrying amount of goodwill. We have the option to first assess qualitative factors to determine whether events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount and determine whether further action is needed. If, after assessing the totality of events or circumstances, we determine it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the quantitative impairment test is unnecessary. No impairment charges were recorded during fiscal 2021, 2020 or 2019.

Acquired Intangible Assets. Acquired intangible assets consist of developed technology, customer relationships, and a trade name, resulting from Zuora's acquisitions. Acquired intangible assets are recorded at fair value on the date of acquisition and amortized over their estimated useful lives on a straight-line basis.

Internal-Use Software and Web Site Development Costs. We capitalize costs related to developing our suite of software solutions and our website when it is probable the expenditures will result in significant new functionality. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalized costs are recorded as part of property and equipment, net in our consolidated balance sheets. Maintenance and training costs are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life, which is generally three years.

Impairment of Long-Lived Assets. The carrying amounts of long-lived assets, including property and equipment, capitalized internal-use software, acquired intangible assets, deferred commissions, and ROU assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable or that the useful life is shorter than originally estimated. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future undiscounted net cash flows the asset is expected to generate over its remaining life. If the asset is determined to be impaired, the amount of any impairment recognized is measured as the difference between the carrying value and the fair value of the impaired asset. If the useful life is shorter than originally estimated, we amortize the remaining carrying value over the new shorter useful life. There were no material impairments recognized for fiscal 2021, 2020 or 2019.

Income Taxes

We use the asset-and-liability method of accounting for income taxes. Under this method, we recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, as well as for operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income for the years in which those tax assets and liabilities are expected to be realized or settled.

We record a valuation allowance to reduce our deferred tax assets to the net amount that we believe is more likely than not to be realized. In assessing the need for a valuation allowance, we have considered our historical levels of income, expectations of future taxable income and ongoing tax planning strategies. Because of the uncertainty of the realization of the deferred tax assets in the U.S., we have recorded a full valuation allowance against our deferred tax assets. Realization of our deferred tax assets is dependent primarily upon future U.S. taxable income.

We recognize and measure tax benefits from uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken by determining if the weight of available evidence indicates that it is more likely than not that the tax position will be sustained in an audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. Significant judgment is required to evaluate uncertain tax positions.

Although we believe that we have adequately reserved for our uncertain tax positions, it can provide no assurance that the final tax outcome of these matters will not be materially different. We evaluate our uncertain tax position on a regular basis and evaluations are based on a number of factors, including changes in facts and circumstances, changes in tax law, correspondence with tax authorities during the course of an audit and effective settlement of audit issues.

To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on our financial condition and results of operations. The provision for income taxes includes the effects of any accruals that we believe are appropriate, as well as the related net interest and penalties.

Stock-Based Compensation

We measure our employee and director stock-based compensation awards, including purchase rights issued under the ESPP, based on the award's estimated fair value on the date of grant. Expense associated with these awards is recognized using the straight-line attribution method over the requisite service period for stock options, RSUs and restricted stock; and over the offering period for the purchase rights issued under the ESPP, and is reported in our consolidated statements of comprehensive loss.

We estimate the fair value of our stock options, and purchase rights under the ESPP, using the Black-Scholes option-pricing model. The resulting fair value, net of estimated forfeitures, is recognized on a straight-line basis over the period during which an employee is required to provide service in exchange for the award. Stock options generally vest over four years and have a contractual term of ten years. ESPP purchase rights vest over the two year offering period.

We estimate the fair value of our restricted stock and RSU grants based on the grant date fair value of our common stock. The resulting fair value, net of estimated forfeitures, is recognized on a straight-line basis over the period during which an employee is required to provide service in exchange for the award, which is generally four years. Estimated forfeitures are based upon our historical experience and we revise our estimates, if necessary, in subsequent periods if actual forfeitures differ from initial estimates.

Determining the grant date fair value of options, restricted stock, and RSUs requires management to make assumptions and judgments. These estimates involve inherent uncertainties and if different assumptions had been used, stock-based compensation expense could have been materially different from the amounts recorded.

The assumptions and estimates for valuing stock options are as follows:

- *Fair value per share of Company's common stock.* Prior to the IPO, because there was no public market for Zuora's common stock, our Board of Directors, with the assistance of a third-party valuation specialist, determined the common stock fair value at the time of the grant of stock options by considering a number of objective and subjective factors, including our actual operating and financial performance, market conditions and performance of comparable publicly traded companies, developments and milestones in the company, the likelihood of achieving a liquidity event, and transactions involving Zuora's common stock, among other factors. After the IPO, we used the publicly quoted price of our common stock as reported on the New York Stock Exchange as the fair value of our common stock.
- *Expected volatility.* We determine the expected volatility based on historical average volatilities of similar publicly traded companies corresponding to the expected term of the awards.
- *Expected term.* We determine the expected term of awards which contain only service conditions using the simplified approach, in which the expected term of an award is presumed to be the mid-point between the vesting date and the expiration date of the award, as we do not have sufficient historical data relating to stock-option exercises.
- *Risk-free interest rate.* The risk-free interest rate is based on the U.S. Treasury yield curve in effect during the period the options were granted corresponding to the expected term of the awards.
- *Estimated dividend yield.* The estimated dividend yield is zero, as we do not currently intend to declare dividends in the foreseeable future.

Net Loss per Share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Options subject to early exercise that are exercised prior to vesting are excluded from the computation of weighted-average number of shares of common stock outstanding until such shares have vested. Diluted net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period increased by giving effect to all potentially dilutive securities to the extent they are dilutive.

Leases

On February 1, 2019, we adopted FASB ASU No. 2016-02, Leases (Topic 842), on a modified retrospective basis. Financial information related to periods prior to adoption are as originally reported under Topic 840, *Leases*.

We determine if a contract is a lease or contains a lease at the inception of the contract and reassess that conclusion if the contract is modified. All leases are assessed for classification as an operating lease or a finance lease. Operating lease right-of-use (ROU) assets are presented separately in our consolidated balance sheet. Operating lease liabilities are also presented separately as current and non-current liabilities in our consolidated balance sheet. We do not have any finance lease ROU assets or liabilities. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. We do not obtain and control our right to use the identified asset until the lease commencement date.

Our lease liabilities are recognized at the applicable lease commencement date based on the present value of the lease payments required to be paid over the lease term. When the rate implicit in the lease is not readily determinable, we use the incremental borrowing rate to discount the lease payments to present value. The estimated incremental borrowing rate is derived from information available at the lease commencement date and factors in a hypothetical interest rate on a collateralized basis with similar terms, payments and economic environments. Our ROU assets are also recognized at the applicable lease commencement date. The ROU asset equals the carrying amount of the related lease liability, adjusted for any lease payments made prior to lease commencement, minus any lease incentives received, and any direct costs incurred by the lessee. Any variable lease payments are expensed as incurred and do not factor into the measurement of the applicable ROU asset or lease liability.

The term of our leases equals the non-cancellable period of the lease, including any rent-free periods provided by the lessor, and also includes options to renew or extend the lease (including by not terminating the lease) that we are reasonably certain to exercise. We establish the term of each lease at lease commencement and reassess that term in subsequent periods when one of the triggering events outlined in Topic 842 occurs. Operating lease cost for lease payments is recognized on a straight-line basis over the lease term.

Our lease contracts often include lease and non-lease components. We have elected the practical expedient offered by the standard to not separate lease from non-lease components for our facilities leases and account for them as a single lease component.

We have elected not to recognize ROU assets and lease liabilities for leases with a term of twelve months or less. Lease cost for these short-term leases is recognized on a straight-line basis over the lease term.

Recent Accounting Pronouncements—Adopted in Fiscal 2021

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, and subsequently issued amendments to the initial guidance including ASU 2018-19, ASU 2019-04, ASU 2019-05, and ASU 2019-11 (collectively, Topic 326). Together, this guidance introduced a new impairment model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses (CECL). The new model uses a forward-looking expected loss method rather than the incurred loss model for recognizing credit losses. Additionally, any expected credit losses are to be reflected as allowances rather than reductions in the amortized cost of available-for-sale debt securities. We adopted Topic 326 beginning February 1, 2020 and the adoption of the standard did not have a material impact on our consolidated financial statements. However, the adoption resulted in modifying our policies for accounts receivable and available-for-sale securities as follows:

Accounts Receivable:

Trade accounts receivable are recorded at the invoiced amount. Prior to our adoption of Topic 326, the accounts receivable balance was reduced by an allowance for doubtful accounts that was determined based on our assessment of the collectability of customer accounts. Under Topic 326, we measure expected credit losses of accounts receivable on a collective (pool) basis, aggregating accounts receivable that have account balances above or below a certain threshold. For receivable balances below the threshold, we apply a credit-loss percentage that is based on our historical credit losses. For receivable balances above the threshold, we perform an analysis on the related customers and reserve the full receivable balance for any customer accounts where collectability may be at risk. The COVID-19 pandemic and recent economic downturn also prompted us to include additional reserves for customers in industries that could be more heavily impacted by these events. We will reassess the impact of these events and any other events that may arise in the future in developing our estimates for expected credit losses, and will make any necessary adjustments to the related reserve balance.

The allowance for credit losses balance was \$4.5 million as of January 31, 2021, and the allowance for doubtful accounts balance was \$2.9 million as of January 31, 2020.

Available-for-Sale Securities:

Available-for-sale securities are reported at fair value, with unrealized gains and losses and the related tax impact included as a separate component of stockholders' equity and in comprehensive loss. Accrued interest of \$0.2 million as of January 31, 2021 is excluded from both the fair value and the amortized cost of our available-for-sale securities and is recorded in prepaid expenses and other current assets in our consolidated balance sheet. We elected not to record an allowance for credit losses for accrued interest on available-for-sale securities and will reverse the accrued interest against interest income in the period in which it is determined that the accrued interest is uncollectible.

Prior to fiscal 2021, we followed the guidance in ASC 320 *Investments-Debt and Equity Securities* in determining whether unrealized losses were other than temporary. Under Topic 326, we now consider whether unrealized losses have resulted from a credit loss or other factors. We had no significant unrealized losses on our available-for-sale securities as of January 31, 2021 and as of January 31, 2020, and do not expect credit losses on our current investments in future periods. Therefore, we concluded that an allowance for credit losses was unnecessary as of the February 1, 2020 adoption date or as of January 31, 2021. We had no significant realized losses on available-for-sale securities during the fiscal year ended January 31, 2021. We use the specific identification method to determine the cost basis of investments sold.

Note 3. Investments

The amortized costs, unrealized gains and losses and estimated fair values of our short-term investments as of January 31, 2021 were as follows (in thousands):

| | As of January 31, 2021 | | | |
|------------------------------|------------------------|------------------------|-------------------------|------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government securities | \$ 18,007 | \$ 28 | \$ — | \$ 18,035 |
| Corporate bonds | 25,888 | 8 | (3) | 25,893 |
| Commercial paper | 48,556 | — | — | 48,556 |
| Total short-term investments | \$ 92,451 | \$ 36 | \$ (3) | \$ 92,484 |

The amortized costs, unrealized gains and losses and estimated fair values of our short-term investments as of January 31, 2020 were as follows (in thousands):

| | As of January 31, 2020 | | | |
|------------------------------|------------------------|------------------------|-------------------------|------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. government securities | \$ 34,053 | \$ 41 | \$ — | \$ 34,094 |
| Corporate bonds | 45,601 | 81 | — | 45,682 |
| Commercial paper | 37,886 | — | — | 37,886 |
| Total short-term investments | \$ 117,540 | \$ 122 | \$ — | \$ 117,662 |

There were no material realized gains or losses from sales of marketable securities that were reclassified out of accumulated other comprehensive income into investment income during fiscal 2021 and 2020. All securities had stated effective maturities of less than two years as of January 31, 2021.

Note 4. Fair Value Measurements

The accounting guidance for fair value measurements establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

| Level input | Input definition |
|-------------|---|
| Level 1 | Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets |
| Level 2 | Inputs other than quoted prices included within Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date |
| Level 3 | Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date |

In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value. If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly.

The following tables summarize our fair value hierarchy for our financial assets measured at fair value on a recurring basis (in thousands):

| | As of January 31, 2021 | | | |
|------------------------------|------------------------|-----------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents: | | | | |
| Money market funds | \$ 85,664 | \$ — | \$ — | \$ 85,664 |
| Short-term investments: | | | | |
| U.S. government securities | \$ — | \$ 18,035 | \$ — | \$ 18,035 |
| Corporate bonds | — | 25,893 | — | 25,893 |
| Commercial paper | — | 48,556 | — | 48,556 |
| Total short-term investments | \$ — | \$ 92,484 | \$ — | \$ 92,484 |

| | As of January 31, 2020 | | | |
|------------------------------|------------------------|------------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents: | | | | |
| Money market funds | \$ 37,906 | \$ — | \$ — | \$ 37,906 |
| Short-term investments: | | | | |
| U.S. government securities | \$ — | \$ 34,094 | \$ — | \$ 34,094 |
| Corporate bonds | — | 45,682 | — | 45,682 |
| Commercial paper | — | 37,886 | — | 37,886 |
| Total short-term investments | \$ — | \$ 117,662 | \$ — | \$ 117,662 |

The carrying amounts of certain financial instruments, including cash held in bank accounts, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their relatively short maturity. The carrying amount of debt approximates fair value due to its floating interest rate.

Note 5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

| | As of January 31, | |
|--------------------------------|-------------------|-----------|
| | 2021 | 2020 |
| Prepaid software subscriptions | \$ 5,087 | \$ 4,036 |
| Prepaid insurance | 2,317 | 1,630 |
| Prepaid hosting costs | 1,847 | 1,611 |
| Contract assets | 1,381 | 2,476 |
| Taxes | 477 | 729 |
| Insurance recovery receivable | 344 | 1,442 |
| Other | 4,121 | 4,463 |
| | \$ 15,574 | \$ 16,387 |

Note 6. Property and Equipment, Net

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

| | As of January 31, | |
|---|-------------------|-----------|
| | 2021 | 2020 |
| Software | \$ 19,711 | \$ 15,329 |
| Leasehold improvements | 18,978 | 16,865 |
| Servers | 14,179 | 14,596 |
| Computer equipment | 12,824 | 11,249 |
| Furniture and fixtures | 5,228 | 4,987 |
| Vehicles | 105 | 108 |
| | 71,025 | 63,134 |
| Less: accumulated depreciation and amortization | (37,656) | (29,645) |
| Total | \$ 33,369 | \$ 33,489 |

The following table summarizes the capitalized internal-use software costs included within the *Software* line item in the table above (in thousands):

| | Fiscal Year Ended January 31, | | |
|--|-------------------------------|----------|----------|
| | 2021 | 2020 | 2019 |
| Internal-use software costs capitalized during the period | \$ 4,235 | \$ 4,552 | \$ 2,280 |
| | | | |
| | | | |
| | | | |
| Total capitalized internal-use software, net of accumulated amortization | \$ 8,704 | \$ 6,276 | |

The following table summarizes total depreciation and amortization expense related to property and equipment, including amortization of internal-use software, included in *Operating expenses* and *Cost of subscription revenue* in the accompanying consolidated statements of comprehensive loss (in thousands):

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|----------|----------|
| | 2021 | 2020 | 2019 |
| Total depreciation and amortization expense | \$ 10,571 | \$ 9,528 | \$ 6,542 |

Note 7. Intangible Assets and Goodwill**Intangible Assets**

The following table summarizes the purchased intangible asset balances (in thousands):

| | As of January 31, 2021 | | |
|------------------------|------------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Developed technology | \$ 7,697 | \$ (6,243) | \$ 1,454 |
| Customer relationships | 4,287 | (2,246) | 2,041 |
| Trade name | 909 | (476) | 433 |
| Total | \$ 12,893 | \$ (8,965) | \$ 3,928 |

| | As of January 31, 2020 | | |
|------------------------|-----------------------------|-----------------------------|------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Developed technology | \$ 7,697 | \$ (5,152) | \$ 2,545 |
| Customer relationships | 4,287 | (1,775) | 2,512 |
| Trade name | 909 | (346) | 563 |
| Total | <u>\$ 12,893</u> | <u>\$ (7,273)</u> | <u>\$ 5,620</u> |

Amortization expense related to purchased intangible assets was \$1.7 million, \$1.8 million and \$2.3 million for fiscal 2021, 2020 and 2019, respectively. Amortization expense related to purchased intangible assets is included in cost of subscription revenue in the accompanying consolidated statements of comprehensive loss.

The expected future amortization expense for intangible assets as of January 31, 2021 is as follows (in thousands):

| | | |
|-------------|-----------|--------------|
| Fiscal 2022 | \$ | 1,692 |
| Fiscal 2023 | | 964 |
| Fiscal 2024 | | 601 |
| Fiscal 2025 | | 514 |
| Fiscal 2026 | | 157 |
| | <u>\$</u> | <u>3,928</u> |

Goodwill

There were no changes in the carrying amount of goodwill for the years ended January 31, 2021 and 2020. Zuora has one reporting unit. We performed an annual test for goodwill impairment as of December 1, 2020 and determined that goodwill was not impaired. In addition, there have been no significant events or circumstances affecting the valuation of goodwill subsequent to our annual assessment.

Note 8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

| | As of January 31, | |
|--|-------------------|------------------|
| | 2021 | 2020 |
| Accrued taxes | \$ 4,377 | \$ 4,803 |
| Accrued hosting and third-party licenses | 3,073 | 1,846 |
| Accrued outside services and consulting | 2,380 | 2,800 |
| Accrued property and equipment | 21 | 3,442 |
| Other accrued expenses | 4,699 | 4,840 |
| Total | <u>\$ 14,550</u> | <u>\$ 17,731</u> |

Note 9. Debt

In June 2017, we entered into a loan and security agreement with Silicon Valley Bank that includes both a revolving and term loan facility. In October 2018, the agreement was amended (First Amendment) to, among other things, increase the availability under the revolving loan to \$30.0 million (from \$10 million), lower the borrowing costs under both the revolving and term loans to the prime rate published by the Wall Street Journal (WSJ Prime Rate) minus 1.00%, extend the interest-only repayment period under the term loan until June 2019, after which time principal and interest would become due in thirty-six (36) equal monthly installments, extend the revolving loan maturity date until October 2021, and extend the latest term loan maturity date until June 2022. In January 2021, the agreement was amended (Second Amendment) to, among other things, extend the maturity of the revolving line of credit by twelve (12) months to October 2022, and remove SVB's first priority security interest in our intellectual property while retaining specified restrictions on our ability to make certain transfers and encumbrances on our intellectual property. The Amendment contains customary representations and warranties. Together, the loan and

security agreement, the First Amendment and Second Amendment constitute the Debt Agreement. We accounted for the First Amendment and Second Amendment as debt modifications and we are recognizing the related fees ratably through October 2022.

Revolving Loan. The Debt Agreement allows us to borrow up to \$30.0 million until October 2022 in revolving loans. Advances drawn down under the revolving loan incur interest at the WSJ Prime Rate minus 1.00% which is due monthly on any amounts drawn down, with the principal due at maturity. Any outstanding amounts must be fully repaid by October 2022. As of January 31, 2021, we had not drawn down any amounts under this revolving loan.

Term Loan. Under the Debt Agreement, we borrowed \$15.0 million in term loans in June 2017 to partially finance the acquisition of Leeyo. Any outstanding amounts under the term loan accrue interest at the WSJ Prime rate minus 1.00%. The interest rate was 2.25% as of January 31, 2021. Payments were interest only through June 2019, after which date equal monthly payments of principal and interest over the following 36 months are due until the term loan is repaid. We may prepay all outstanding principal and accrued interest at any time without penalty. We will incur a fee of 1.5% of the original principal amount of the term loan, or \$225,000, upon the earlier to occur of prepayment or the termination of the facility. As of January 31, 2021 and 2020, we had \$6.0 million and \$10.5 million outstanding under the term loan, respectively.

Both the revolving loan and the term loan are subject to a certain financial covenant to maintain an adjusted quick ratio of no less than 1.10:1.00. As of January 31, 2021, we were in compliance with this financial covenant. The Debt Agreement also imposes certain limitations with respect to lines of business, mergers, investments and acquisitions, additional indebtedness, distributions, guarantees, liens, and encumbrances, and requires an adjusted quick ratio of 1.25:1.00 in connection with certain corporate events such as permitted stock repurchases and acquisitions.

We incurred transaction costs and fees payable to the lender related to the issuance of the term loan. The amount, net of amortization, is immaterial and is presented as a reduction to the carrying amount of the term loan and is presented under debt in our consolidated balance sheets.

Our indebtedness under the Debt Agreement is secured by a lien on substantially all of Zuora's assets.

Note 10. Deferred Revenue and Performance Obligations

The following table summarizes revenue recognized during the period that was included in the deferred revenue balance at the beginning of each respective period (in thousands):

| | Fiscal Year Ended January 31, | | |
|--|-------------------------------|-----------|-----------|
| | 2021 | 2020 | 2019 |
| Revenue recognized from deferred revenue | \$ 107,091 | \$ 79,057 | \$ 53,861 |

As of January 31, 2021, total remaining non-cancellable performance obligations under our subscription contracts with customers was approximately \$317.1 million and we expect to recognize revenue on approximately 64% of these remaining performance obligations over the next 12 months. Remaining performance obligations under our professional services contracts as of January 31, 2021 were not material.

Note 11. Geographical Information

Disaggregation of Revenue

Revenue by geographical location, based on the customer's address at the time of sale, was as follows (in thousands):

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|------------|------------|
| | 2021 | 2020 | 2019 |
| United States | \$ 200,273 | \$ 190,208 | \$ 168,221 |
| Others | 105,147 | 85,849 | 66,768 |
| Total | \$ 305,420 | \$ 276,057 | \$ 234,989 |
| Percentage of revenue by geographic area: | | | |
| United States | 66 % | 69 % | 72 % |
| Other | 34 % | 31 % | 28 % |

Other than the United States, no individual country exceeded 10% of total revenue for fiscal 2021, 2020 and 2019.

Long-lived assets

Long-lived assets, which consist of property and equipment, net, purchased intangible assets, net, deferred commissions, and operating lease ROU assets by geographic location, is based on the location of the legal entity that owns the asset. As of January 31, 2021, no individual country exceeded 10% of total long-lived assets other than the United States.

Note 12. Leases

We have non-cancelable operating leases for our offices located in the U.S. and abroad. As of January 31, 2021, these leases expire on various dates between 2021 and 2030. Certain lease agreements include one or more options to renew, with renewal terms that can extend the lease up to seven years. We have the right to exercise or forego the lease renewal options. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The components of leases and lease costs were as follows (in thousands):

| | January 31, 2021 | |
|---|------------------|-----------|
| | 2021 | 2020 |
| Operating lease right-of-use assets | \$ 47,085 | \$ 54,286 |
| Operating lease liabilities, current portion | 9,630 | 5,755 |
| Operating lease liabilities, net of current portion | 53,590 | 62,307 |
| Total operating lease liabilities | \$ 63,220 | \$ 68,062 |

| | Fiscal Year Ended January 31, | |
|-----------------------------------|-------------------------------|-----------|
| | 2021 | 2020 |
| Operating lease cost ¹ | \$ 11,933 | \$ 11,737 |

(1) Includes costs related to our short-term operating leases as follows (in thousands):

| | Fiscal Year Ended January 31, | |
|---------------------------------|-------------------------------|--------|
| | 2021 | 2020 |
| Short-term operating lease cost | \$ 193 | \$ 706 |

The future maturities of operating lease liabilities for each fiscal year were as follows (in thousands):

| | January 31, | |
|------------------------------------|-------------|----------|
| 2022 | \$ | 12,374 |
| 2023 | | 11,797 |
| 2024 | | 9,569 |
| 2025 | | 6,386 |
| 2026 | | 6,242 |
| Thereafter | | 29,897 |
| Total lease payments | | 76,265 |
| Less imputed interest | | (13,045) |
| Present value of lease liabilities | \$ | 63,220 |

Other supplemental information related to our long-term operating leases includes the following (dollars in thousands):

| | January 31, 2021 | |
|---|------------------|-------|
| | 2021 | 2020 |
| Weighted-average remaining operating lease term (years) | 7.8 | 8.3 |
| Weighted-average operating lease discount rate | 4.7 % | 4.7 % |

| | Fiscal Year Ended January 31, | |
|--|-------------------------------|-----------|
| | 2021 | 2020 |
| Supplemental Cash Flow Information | | |
| Cash paid (received) for amounts included in the measurement of lease liabilities: | | |
| Cash paid for operating leases | \$ 9,693 | \$ 9,544 |
| Cash received on operating lease incentives | — | (10,033) |
| Operating cash flows resulting from operating leases | \$ 9,693 | \$ (489) |
| New right-of-use assets obtained in exchange for lease liabilities: | | |
| Operating leases obtained | \$ 1,064 | \$ 63,106 |

As of January 31, 2021, we had \$4.1 million of undiscounted future payments for operating leases that have not yet commenced, which are excluded from the tables above and are not yet recognized in our consolidated balance sheets. These operating leases are expected to commence in fiscal year 2022 and have a lease term of two- to three years.

Note 13. Commitments and Contingencies

Letters of Credit

In connection with the execution of certain facility leases, we had bank issued irrevocable letters of credit for \$4.7 million, \$4.7 million and \$2.1 million as of January 31, 2021, 2020 and 2019, respectively. No draws have been made under such letters of credit.

Legal Proceedings

From time to time, we may be subject to legal proceedings, as well as demands, claims and threatened litigation. The outcomes of legal proceedings and other contingencies are inherently unpredictable, subject to significant uncertainties, and could be material to our operating results and cash flows for a particular period. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors. Other than the matters described below, we are not currently party to any legal proceeding that management believes could have a material adverse effect on our business, operating results, cash flows, or financial condition should such litigation or claim be resolved unfavorably.

Securities Class Actions

In June 2019, a putative securities class action lawsuit was filed in the U.S. District Court for the Northern District of California naming Zuora and certain of our officers as defendants. The complaint purports to bring suit on behalf of stockholders who purchased or otherwise acquired our securities between April 12, 2018 and May 30, 2019. The complaint alleges that defendants made false and misleading statements about our business, operations and prospects in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (Exchange Act), and seeks unspecified compensatory damages, fees and costs. In November 2019, the lead plaintiff filed a consolidated amended complaint asserting the same claims. In April 2020, the Court denied defendants' motion to dismiss. Discovery in the case is ongoing.

In April and May 2020, two putative securities class action lawsuits were filed in the Superior Court of the State of California, County of San Mateo, naming as defendants Zuora and certain of our current and former officers, our directors and the underwriters of our IPO. The complaints purport to bring suit on behalf of stockholders who purchased or otherwise acquired our securities pursuant or traceable to the Registration Statement and Prospectus issued in connection with our IPO and allege claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933. The suits seek unspecified damages and other relief. In July 2020, the court entered an order consolidating the two lawsuits, and the lead plaintiff filed a consolidated amended complaint asserting the same claims. In October 2020, the court denied defendants' demurrer as to the Section 11 and Section 15 claims and granted the demurrer as to the Section 12(a)(2) claim with leave to file an amended complaint. In November 2020, the lead plaintiff filed an amended consolidated complaint. Defendants' demurrer to the Section 12(a)(2) claim was sustained with further leave to amend.

Given the procedural posture and the nature of such litigation matters, we are unable to estimate the reasonably possible loss or range of loss, if any, that may result from these matters. We dispute the claims described above and intend to vigorously defend against them.

Derivative Litigation

In September 2019, two stockholder derivative lawsuits were filed in the U.S. District Court for the Northern District of California against certain of our directors and executive officers and naming Zuora as a nominal defendant. The derivative actions allege claims based on events similar to those in the securities class actions and assert causes of action against the individual defendants for breach of fiduciary duty, unjust enrichment, waste of corporate assets, and for making false and misleading statements about our business, operations, and prospects in violation of Section 14(a) of the Exchange Act. Plaintiffs seek corporate reforms, unspecified damages and restitution, and fees and costs. In November 2019, the stockholder derivative lawsuits, which are related to the federal securities class action, were assigned to the same judge who is overseeing the federal securities class action lawsuit. In February 2020, the court entered an order consolidating the two derivative lawsuits. In August 2020, the court entered an order staying the consolidated action until the completion of fact discovery in the federal securities class action.

In May and June 2020, two stockholder derivative lawsuits were filed in the U.S. District Court for the District of Delaware against certain of our directors and current and former executive officers. The derivative actions allege claims based on events similar to those in the securities class actions and the derivative actions pending in the Northern District of California and assert causes of action against the individual defendants for breach of fiduciary duty, unjust enrichment, waste of corporate assets, contribution, and for making false and misleading statements about our business, operations, and prospects in violation of Section 14(a) of the Exchange Act. Plaintiff seeks corporate reforms, unspecified damages and restitution, and fees and costs. In June 2020, the court entered an order consolidating the two Delaware derivative lawsuits. In August 2020, the court entered an order staying the consolidated action until the completion of fact discovery in the federal securities class action. In February and March 2021, two additional stockholder derivative lawsuits were filed in Delaware Chancery Court against certain current and former officers and directors alleging similar claims based on the same events as above.

Given the procedural posture and the nature of such litigation matters, we are unable to estimate the reasonably possible loss or range of loss, if any, that may result from these matters.

Other Contractual Obligations

As of January 31, 2021, we had a contractual obligation to make \$13.3 million in purchases of cloud computing services provided by one of our vendors by September 30, 2021.

Note 14. Income Taxes

Net loss before provision for income taxes consisted of the following (in thousands):

| | Fiscal Year Ended January 31, | | |
|--------------------------|-------------------------------|-------------|-------------|
| | 2021 | 2020 | 2019 |
| Domestic | \$ (77,140) | \$ (84,988) | \$ (79,804) |
| Foreign | 5,839 | 2,035 | 8,970 |
| Loss before income taxes | \$ (71,301) | \$ (82,953) | \$ (70,834) |

The components of our income tax provision are as follows (in thousands):

| | Fiscal Year Ended January 31, | | |
|----------------------|-------------------------------|---------|----------|
| | 2021 | 2020 | 2019 |
| Current: | | | |
| Federal | \$ — | \$ — | \$ — |
| State | 46 | 72 | 81 |
| International | 1,480 | 481 | 1,406 |
| | \$ 1,526 | \$ 553 | \$ 1,487 |
| Deferred: | | | |
| Federal | \$ — | \$ (29) | \$ — |
| State | — | — | — |
| International | 347 | (83) | 420 |
| Income tax provision | \$ 1,873 | \$ 441 | \$ 1,907 |

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Our deferred income tax assets and liabilities consisted of the following (in thousands):

| | As of January 31, | |
|------------------------------------|-------------------|------------|
| | 2021 | 2020 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 108,390 | \$ 94,805 |
| Tax credit carryforwards | 9,849 | 8,525 |
| Allowances and other | 12,727 | 12,095 |
| Depreciation and amortization | 1,417 | 906 |
| Operating lease liability | 15,627 | 16,358 |
| Total deferred tax assets | \$ 148,010 | \$ 132,689 |
| Deferred tax liabilities: | | |
| Deferred commissions | \$ (9,002) | \$ (7,707) |
| Intangibles | (3,057) | (3,004) |
| Operating lease right-of-use asset | (11,718) | (12,639) |
| Total deferred tax liabilities | (23,777) | (23,350) |
| Valuation allowance | (126,149) | (110,908) |
| Net deferred tax liabilities | \$ (1,916) | \$ (1,569) |

We have assessed, based on available evidence, both positive and negative, it is more likely than not that the deferred tax assets will not be utilized, such that a valuation allowance has been recorded. The valuation allowance increased by \$15.2 million and \$23.9 million, respectively, for fiscal 2021 and 2020.

As of January 31, 2021, we had U.S. federal and state net operating loss carryforwards of approximately \$426.5 million and \$286.2 million, respectively, available to offset future taxable income. As of January 31, 2020, we had U.S. federal and state net operating loss carryforwards of approximately \$366.4 million and \$269.9 million,

respectively, available to offset future taxable income. If not utilized, these carryforward losses will expire in various amounts for federal and state tax purposes beginning in 2028. In addition, Zuora has approximately \$188.4 million of federal net operating loss carryforwards that arose after the 2017 tax year, which are available to reduce future federal taxable income, if any, over an indefinite period. The utilization of those net operating loss carryforwards is limited to 80% of taxable income in any given year.

We have approximately \$8.4 million and \$10.5 million of federal and state research and development tax credits, respectively, available to offset future taxes as of January 31, 2021, and approximately \$7.4 million and \$8.9 million of federal and state research and development tax credits, respectively, available to offset future taxes as of January 31, 2020. If not utilized, the federal credits will begin to expire in 2031. California state research and development tax credits may be carried forward indefinitely.

Utilization of the net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the "ownership change" limitations provided by Section 382 and 383 of the Internal Revenue Code of 1986, as amended, and other similar state provisions. Any annual limitation may result in the expiration of net operation loss and tax credit carryforwards before utilization.

Furthermore, under the Tax Reform Act, although the treatment of tax losses generated in taxable years ending before December 31, 2017 has generally not changed, tax losses generated in taxable years beginning after December 31, 2017 may be utilized to offset no more than 80% of taxable income annually. This change may require us to pay federal income taxes in future years despite generating a loss for federal income tax purposes in the current and prior years.

On March 27, 2020, the CARES Act was enacted and signed into U.S. law to provide economic relief to individuals and businesses facing economic hardship as a result of the COVID-19 pandemic. Changes in tax laws or rates are accounted for in the period of enactment. Under the CARES Act, we deferred payment of \$3.6 million in employer FICA taxes related to the period from March 27, 2020 through December 31, 2020, of which 50% is due for payment on December 31, 2021 and the remaining 50% is due on December 31, 2022. The income tax provisions of the CARES Act did not have a significant impact on our current taxes, deferred taxes, and uncertain tax positions.

The amount of accumulated foreign earnings of our foreign subsidiaries was immaterial as of January 31, 2021. If our foreign earnings were repatriated, additional tax expense might result. Any additional taxes associated with such repatriation would be immaterial.

A reconciliation of the U.S. federal statutory tax rate to our provision for income tax is as follows (dollars in thousands):

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|---------------|-----------------|
| | 2021 | 2020 | 2019 |
| | Amount | Amount | Amount |
| Federal income tax benefit at statutory rates | \$ (14,973) | \$ (17,420) | \$ (14,875) |
| State income taxes, net of effect of federal | (2,072) | (3,859) | (3,337) |
| Permanent differences | 718 | 1,174 | 1,242 |
| Federal and state R&D credits | (1,325) | (1,235) | (1,029) |
| Impact from international operations | 600 | (31) | 1,340 |
| Stock-based compensation and other | 3,685 | (3,427) | (476) |
| Change in valuation allowance | 15,240 | 25,239 | 19,042 |
| Income tax provision | <u>\$ 1,873</u> | <u>\$ 441</u> | <u>\$ 1,907</u> |

We are required to inventory, evaluate, and measure all uncertain tax positions taken or to be taken on tax returns and to record liabilities for the amount of such positions that may not be sustained, or may only partially be sustained, upon examination by the relevant taxing authorities. As of January 31, 2021, our total gross unrecognized tax benefits were \$9.4 million exclusive of interest and penalties described below. As of January 31, 2020, our total gross unrecognized tax benefits were \$8.1 million exclusive of interest and penalties described below. Because of our valuation allowance position, \$0.7 million of unrecognized tax benefits, if recognized, would reduce the effective tax rate in a future period. We do not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

A reconciliation of the beginning and ending amounts of uncertain tax position is as follows (in thousands):

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|-----------------|-----------------|
| | 2021 | 2020 | 2019 |
| Gross amount of unrecognized tax benefits as of the beginning of the period | \$ 8,070 | \$ 6,588 | \$ 5,918 |
| Increase for tax positions related to prior years | — | — | 8 |
| Decrease for tax positions related to prior years | (5) | (18) | (366) |
| Increase for tax positions related to the current year | 1,320 | 1,500 | 1,028 |
| Gross amount of unrecognized tax benefits as of the end of the period | <u>\$ 9,385</u> | <u>\$ 8,070</u> | <u>\$ 6,588</u> |

We file tax returns in the U.S. federal and various state and foreign jurisdictions. All U.S. federal and state jurisdictions remain subject to examination by tax authorities due to the carryforward of unused net operating losses and research and development credits. In addition, tax years starting from 2007 are subject to examination.

During fiscal 2021 and 2020, we recognized interest and penalties of \$0.1 million associated with unrecognized tax benefits in income tax expense.

Note 15. Stockholders' Equity

Preferred Stock

As of January 31, 2021, we had authorized 10 million shares of preferred stock, each with a par value of \$0.0001 per share. As of January 31, 2021, no shares of preferred stock were issued and outstanding.

Common Stock

Prior to the IPO, all shares of common stock then outstanding were reclassified into Class B common stock. Shares offered and sold in the IPO consisted of newly authorized shares of Class A common stock. Holders of Class A and Class B common stock are entitled to one vote per share and ten votes per share, respectively, and the shares of Class A common stock and Class B common stock are identical, except for voting rights and the right to convert Class B shares to Class A shares.

As of January 31, 2021, we had authorized 500 million shares of Class A common stock and 500 million shares of Class B common stock, each with a par value of \$0.0001 per share. As of January 31, 2021, 109.9 million shares of Class A common stock and 11.0 million shares of Class B common stock were issued and outstanding.

Charitable Contributions

During fiscal 2021, we donated 73,964 shares of our Class A common stock to a charitable donor-advised fund and recognized \$1.0 million as a non-cash general and administrative expense in our consolidated statement of comprehensive loss.

Accumulated Other Comprehensive Income

Components of accumulated other comprehensive income were as follows (in thousands):

| | Foreign Currency Translation Adjustment | Unrealized Gain (Loss) on Available-for-Sale Securities | Total |
|--|--|--|---------------|
| Balance, January 31, 2020 | \$ 95 | \$ 93 | \$ 188 |
| Foreign currency translation adjustment | 696 | — | 696 |
| Unrealized gain on available-for-sale securities, net of tax | — | (88) | (88) |
| Balance, January 31, 2021 | <u>\$ 791</u> | <u>\$ 5</u> | <u>\$ 796</u> |

There were no reclassifications out of accumulated other comprehensive income during fiscal 2021. Additionally, there was no material tax impact on the amounts presented.

Note 16. Employee Stock Plans

Equity Incentive Plans

In March 2018, our Board of Directors adopted and our stockholders approved the 2018 Equity Incentive Plan. The 2018 Plan authorizes the award of stock options, restricted stock awards, stock appreciation rights, RSUs, performance awards, and stock bonuses. As of January 31, 2021, approximately 20.4 million shares of Class A common stock were reserved and available for issuance under the 2018 Plan. In addition, as of January 31, 2021, 7.3 million stock options and RSUs exercisable or settleable for Class B common stock were outstanding in the aggregate under our 2006 Stock Plan (2006 Plan) and 2015 Equity Incentive Plan (2015 Plan), which plans were terminated in May 2015 and April 2018, respectively. The 2006 Plan and 2015 Plan continue to govern outstanding equity awards granted thereunder.

Stock Options

The following table summarizes stock option activity and related information (in thousands except exercise price and contractual term):

| | Shares Subject To Outstanding Stock Options | Weighted Average Exercise Price | Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|--|--|--|---|---------------------------------|
| Balance as of January 31, 2020 | 13,701 | \$ 7.64 | 6.9 | \$ 107,186 |
| Granted | 2,462 | 11.72 | | |
| Exercised | (2,725) | 4.33 | | |
| Forfeited | (1,626) | 12.91 | | |
| Balance as of January 31, 2021 | 11,812 | 8.54 | 6.6 | 80,212 |
| Exercisable as of January 31, 2021 | 7,750 | 9.50 | 5.5 | 73,656 |
| Vested and expected to vest as of January 31, 2021 | 11,340 | \$ 8.35 | 6.5 | \$ 79,107 |

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|-----------|-----------|
| | 2021 | 2020 | 2019 |
| Weighted-average grant date fair value per share of options granted during each respective period | \$ 4.69 | \$ 6.92 | \$ 6.81 |
| Aggregate intrinsic value of options exercised during each respective period | \$ 22,677 | \$ 39,652 | \$ 42,912 |

We used the Black-Scholes option-pricing model to estimate the fair value of our stock options granted with the following assumptions:

| | Fiscal Year Ended January 31, | | |
|--------------------------|-------------------------------|---------------|---------------|
| | 2021 | 2020 | 2019 |
| Expected volatility | 41.4% - 42.4% | 35.0% - 39.0% | 32.4% - 40.9% |
| Expected term (in years) | 6.0 - 6.1 | 5.6 - 6.5 | 5.1 - 6.4 |
| Risk-free interest rate | 0.4% - 0.6% | 1.4% - 2.5% | 2.6% - 3.0% |
| Expected dividend yield | — | — | — |

RSU and Restricted Stock Award Activity

The following table summarizes RSU and restricted stock award activity and related information (in thousands except grant date fair value):

| | Number of RSUs and Restricted Stock Awards | Weighted-Average Grant Date Fair Value |
|--------------------------------|--|--|
| Balance as of January 31, 2020 | 5,029 | \$ 18.09 |
| Granted | 7,979 | 11.55 |
| Vested | (2,932) | 14.63 |
| Forfeited | (1,798) | 15.67 |
| Balance as of January 31, 2021 | <u>8,278</u> | <u>\$ 13.54</u> |

2018 Employee Stock Purchase Plan

In March 2018, our Board of Directors adopted and our stockholders approved the 2018 Employee Stock Purchase Plan (ESPP). A total of 3.1 million shares of Class A common stock were reserved and available for issuance under the ESPP as of January 31, 2021. The ESPP provides for 24-month offering periods beginning June 15 and December 15 of each year, and each offering period will consist of four, six-month purchase periods. On each purchase date, eligible employees are granted the right to purchase shares of our Class A common stock at a price per share equal to 85% of the lesser of (1) the fair market value of the Class A common stock on the offering date or (2) the fair market value of the Class A common stock on the purchase date.

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

| | Fiscal Year Ended January 31, | | |
|--------------------------|-------------------------------|---------------|---------------|
| | 2021 | 2020 | 2019 |
| Expected volatility | 43.6% - 69.1% | 35.2% - 42.6% | 24.6% - 42.4% |
| Expected term (in years) | 0.5 - 2.0 | 0.5 - 2.0 | 0.5 - 2.2 |
| Risk-free interest rate | 0.1% - 0.2% | 1.5% - 2.2% | 2.0% - 2.8% |
| Expected dividend yield | — | — | — |

Stock-based Compensation Expense

Stock-based compensation expense was recorded in the following cost and expense categories in the accompanying consolidated statements of comprehensive loss (in thousands):

| | As of January 31, | | |
|--|-------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| Cost of subscription revenue | \$ 4,849 | \$ 2,772 | \$ 1,967 |
| Cost of professional services revenue | 9,952 | 7,265 | 5,900 |
| Research and development | 19,562 | 17,568 | 6,345 |
| Sales and marketing | 15,839 | 11,129 | 7,384 |
| General and administrative | 9,081 | 6,312 | 3,761 |
| Total stock-based compensation expense | <u>\$ 59,283</u> | <u>\$ 45,046</u> | <u>\$ 25,357</u> |

During the three months ended July 31, 2020, in light of the COVID-19 pandemic and for retention purposes, we issued RSU grants for 0.7 million shares of Class A common stock to eligible non-executive employees. These RSU awards have fully vested and we recognized \$7.6 million of stock-based compensation expense related to these awards during fiscal year 2021.

As of January 31, 2021, unrecognized compensation costs related to unvested equity awards and the weighted-average remaining period over which those costs are expected to be realized were as follows (dollars in thousands):

| | Stock Options | RSUs | ESPP |
|---|---------------|-----------|-----------|
| Unrecognized compensation costs | \$ 20,239 | \$ 92,731 | \$ 8,666 |
| Weighted-average remaining recognition period | 2.7 years | 3.1 years | 1.1 years |

Note 17. Net Loss Per Share

We calculate our basic and diluted net loss per share in conformity with the two-class method required for companies with participating securities. Under the two-class method, basic net loss per share is calculated by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period, less shares subject to repurchase. The diluted net loss per share is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period. For purposes of this calculation, options to purchase common stock, restricted stock units, shares issuable pursuant to our ESPP, and shares subject to repurchase from early exercised options and unvested restricted stock are considered common stock equivalents but have been excluded from the calculation of diluted net loss per share as their effect is antidilutive.

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock are identical, except with respect to voting and conversion. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis and the resulting net loss per share will, therefore, be the same for both Class A and Class B common stock on an individual or combined basis. We did not present dilutive net loss per share on an as-if converted basis because the impact was not dilutive.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

| | Fiscal Year Ended January 31, | | |
|---|-------------------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| Numerator: | | | |
| Net loss | \$ (73,174) | \$ (83,394) | \$ (72,741) |
| Denominator: | | | |
| Weighted-average common shares outstanding, basic and diluted | 117,598 | 111,122 | 91,267 |
| Net loss per share, basic and diluted | <u>\$ (0.62)</u> | <u>\$ (0.75)</u> | <u>\$ (0.80)</u> |

Since Zuora was in a loss position for all periods presented, basic net loss per share is the same as diluted net loss per share as the inclusion of all potential common shares outstanding would have been anti-dilutive. Potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive were as follows (in thousands):

| | As of January 31, | | |
|---|-------------------|---------------|---------------|
| | 2021 | 2020 | 2019 |
| Issued and outstanding stock options | 11,812 | 13,701 | 14,784 |
| Unvested RSUs and restricted stock issued and outstanding | 8,278 | 5,029 | 3,078 |
| Shares committed under ESPP | 139 | 116 | 141 |
| Total | <u>20,229</u> | <u>18,846</u> | <u>18,003</u> |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer (our principal executive officer) and Chief Financial Officer (our 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 January 31, 2021. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of January 31, 2021, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to

our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of January 31, 2021 based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of its evaluation, management concluded that our internal control over financial reporting was effective as of January 31, 2021. The effectiveness of our internal control over financial reporting as of January 31, 2021 has been audited by KPMG LLP, our independent registered public accounting firm, as stated in its report which is included in Part II, Item 8 of the Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

We continue to monitor the design and operating effectiveness of our internal controls for any effect resulting from the COVID-19 pandemic in order to minimize any potential impacts. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the three months 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 Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect 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, within our company have been detected. Accordingly, our disclosure controls and procedures provide reasonable assurance of achieving their objectives.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to information contained in the Proxy Statement relating to our 2021 Annual Meeting of Stockholders.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to information contained in the Proxy Statement relating to our 2021 Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to information contained in the Proxy Statement relating to our 2021 Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to information contained in the Proxy Statement relating to our 2021 Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to information contained in the Proxy Statement relating to our 2021 Annual Meeting of Stockholders.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

1. *Financial Statements*

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

2. *Financial Statement Schedules*

Financial statement schedules not listed have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. *Exhibits*

| Exhibit Number | Exhibit Description | Incorporated By Reference | | | | Filed or Furnished Herewith |
|----------------|---|---------------------------|------------|---------|-------------|-----------------------------|
| | | Form | File No. | Exhibit | Filing Date | |
| 3.1 | Restated Certificate of Incorporation of the Registrant. | 10-Q | 001-38451 | 3.1 | 6/13/2018 | |
| 3.2 | Amended and Restated Bylaws of the Registrant. | 8-K | 001-38451 | 3.1 | 5/5/2020 | |
| 4.1 | Form of Class A Common Stock Certificate of the Registrant. | S-1 | 333-223722 | 4.1 | 3/16/2018 | |
| 4.2 | Amended and Restated Investor Rights Agreement. | S-1 | 333-223722 | 4.2 | 3/16/2018 | |
| 4.3 | Description of Registrant's Securities. | | | | | X |
| 10.1* | Form of Indemnification Agreement by and between the Registrant and each of its directors and executive officers. | S-1 | 333-223722 | 10.1 | 3/16/2018 | |
| 10.2* | 2006 Stock Plan and forms of award agreements. | S-1 | 333-223722 | 10.2 | 3/16/2018 | |
| 10.3* | 2015 Equity Incentive Plan and forms of award agreements. | S-1 | 333-223722 | 10.3 | 3/16/2018 | |
| 10.4* | 2018 Equity Incentive Plan and forms of award agreements. | S-1 | 333-223722 | 10.4 | 3/16/2018 | |
| 10.5* | 2018 Employee Stock Purchase Plan and form of subscription agreement. | S-1 | 333-223722 | 10.5 | 3/16/2018 | |
| 10.6* | Offer Letter, dated March 6, 2018, between Tien Tzuo and the Registrant. | S-1 | 333-223722 | 10.6 | 3/16/2018 | |
| 10.7* | Offer Letter, dated March 6, 2018, between Brent R. Cromley, Jr. and the Registrant. | S-1 | 333-223722 | 10.7 | 3/16/2018 | |
| 10.8* | Offer Letter, dated January 7, 2016, between Kenneth Goldman and the Registrant. | S-1 | 333-223722 | 10.9 | 3/16/2018 | |
| 10.9* | Offer Letter, dated May 8, 2017, between Magdalena Yesil and the Registrant. | S-1 | 333-223722 | 10.10 | 3/16/2018 | |
| 10.10* | Offer Letter, dated March 6, 2018, between Jennifer Pileggi and the Registrant. | 10-K | 001-38451 | 10.11 | 4/18/2019 | |
| 10.11* | Offer Letter, dated March 6, 2018, between Tyler Sloat and the Registrant. | 10-K | 001-38451 | 10.13 | 3/31/2020 | |
| 10.12* | Offer Letter, dated September 17, 2019, between Robert J. Traube and the Registrant. | 10-K | 001-38451 | 10.12 | 3/31/2020 | |
| 10.13* | Offer Letter dated May 25, 2020, between Todd McElhatton and the Registrant. | 10-Q | 001-38451 | 10.1 | 9/4/2020 | |

| | | | | | | |
|---------|--|------|------------|-------|------------|---|
| 10.14* | Offer Letter, dated December 17, 2020, between Sridhar Srinivasan and the Registrant. | | | | | X |
| 10.15* | Transition Agreement by and between Brent R. Cromley, Jr. and the Registrant, dated January 11, 2021. | | | | | X |
| 10.16* | Form of Change in Control and Severance Agreement. | 10-Q | 001-38451 | 10.1 | 12/16/2019 | |
| 10.17* | Cash Incentive Plan. | 10-Q | 001-38451 | 10.2 | 6/11/2019 | |
| 10.18 | Lease Agreement between 101 Redwood Shores LLC, As Landlord and Zuora, Inc., as Tenant dated March 19, 2019. | 8-K | 001-38451 | 10.1 | 3/21/2019 | |
| 10.19 | Loan and Security Agreement, dated June 14, 2017, by and among Silicon Valley Bank, the Registrant, Zuora Services, LLC, and Leeyo Software, Inc. | S-1 | 333-223722 | 10.13 | 3/16/2018 | |
| 10.20 | First Amendment to Loan and Security Agreement, dated October 11, 2018, by and among Silicon Valley Bank, the Registrant, Zuora Services, LLC, and Leeyo Software, Inc. | 10-Q | 001-38451 | 10.1 | 12/13/2018 | |
| 10.21 | Second Amendment to Loan and Security Agreement, dated January 19, 2021, by and among Silicon Valley Bank, the Registrant, Zuora Services, LLC, and Leeyo Software, Inc. | | | | | X |
| 21.1 | Subsidiaries of the Registrant. | | | | | X |
| 23.1 | Consent of Independent Registered Public Accounting Firm. | | | | | X |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act. | | | | | X |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Exchange Act. | | | | | X |
| 32.1** | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 32.2** | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | | | | | X |
| 101.INS | Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document | | | | | X |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | | | | | X |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | | | | X |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | | | | | X |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | | | | | X |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | | | | X |

104 Cover Page Interactive Data File (embedded within the
Inline XBRL document and included in Exhibit 101).

X

** Indicates a management contract or compensatory plan or arrangement in which directors or executive officers are eligible to participate.*

*** The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-K and are not deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.*

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

ZUORA, INC.

Date: March 31, 2021

By: /s/ Todd McElhatton
Todd McElhatton
Chief Financial Officer
(Principal Accounting and Financial Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Tien Tzuo and Todd McElhatton, and each 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 his or her name, place and stead, in any and all capacities, to sign any 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, proxies, and agents 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 for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, proxies, and agents, or their 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, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

| Signature | Title | Date |
|---|--|----------------|
| <u>/s/ Tien Tzuo</u> Tien Tzuo | Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer) | March 31, 2021 |
| <u>/s/ Todd McElhatton</u> Todd McElhatton | Chief Financial Officer (Principal Accounting and Financial Officer) | March 31, 2021 |
| <u>/s/ Omar Abbosh</u> Omar Abbosh | Director | March 31, 2021 |
| <u>/s/ Sarah Bond</u> Sarah Bond | Director | March 31, 2021 |
| <u>/s/ Peter Fenton</u> Peter Fenton | Director | March 31, 2021 |
| <u>/s/ Kenneth A. Goldman</u> Kenneth A. Goldman | Director | March 31, 2021 |
| <u>/s/ Timothy Haley</u> Timothy Haley | Director | March 31, 2021 |
| <u>/s/ Jason Pressman</u> Jason Pressman | Director | March 31, 2021 |
| <u>/s/ Magdalena Yesil</u> Magdalena Yesil | Director | March 31, 2021 |

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

As of January 31, 2021, Zuora, Inc. (the "Company," "we" or "our") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934: our Class A common stock.

DESCRIPTION OF CAPITAL STOCK

The following description summarizes the most important terms of the capital stock of Zuora, Inc. Because it is only a summary, it does not contain all the information that may be important to you. This description summarizes provisions included in our seventh amended and restated certificate of incorporation (the "restated certificate of incorporation"), amended and restated bylaws, and our amended and restated investor rights agreement, dated January 16, 2015 among the Company and the stockholders named therein (the "**Investor Rights Agreement**"). For a complete description, you should refer to our restated certificate of incorporation, our amended and restated bylaws, and the Investor Rights Agreement, which are included as exhibits to this Form 10-K for the year ended January 31, 2021 and are incorporated by reference herein, and to the applicable provisions of Delaware law.

Our authorized capital stock consists of 500,000,000 shares of our Class A common stock, \$0.0001 par value per share, 500,000,000 shares of our Class B common stock, \$0.0001 par value per share, and 10,000,000 shares of undesignated preferred stock, \$0.0001 par value per share.

Class A Common Stock and Class B Common Stock

Dividend Rights

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

Voting Rights

Holders of our Class A common stock are entitled to one vote for each share of Class A common stock held on all matters submitted to a vote of stockholders and holders of our Class B common stock are entitled to ten votes for each share of Class B common stock held on all matters submitted to a vote of stockholders. Holders of shares of our Class A common stock and Class B common stock vote together as a single class on all matters (including the election of directors) submitted to a vote of stockholders, unless otherwise required by Delaware law or our restated certificate of incorporation.

Our restated certificate of incorporation does not provide for cumulative voting for the election of directors. As a result, the holders of a majority of our voting shares can elect all of the directors then standing for election. Our restated certificate of incorporation establishes a classified board of directors, to be divided into three classes with staggered three-year terms. Only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms.

No Preemptive or Similar Rights

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

Right to Receive Liquidation Distributions

Upon our liquidation, dissolution or winding-up, the assets legally available for distribution to our stockholders would be distributable ratably among the holders of our common stock and any participating preferred stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities

and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock.

Change of Control Transactions

In the case of any distribution or payment in respect of the shares of our Class A common stock or Class B common stock upon a merger or consolidation with or into any other entity, or other substantially similar transaction, the holders of our Class A common stock and Class B common stock will be treated equally and identically with respect to shares of Class A common stock or Class B common stock owned by them, unless the only difference in the per share distribution to the holders of the Class A common stock and Class B common stock is that any securities distributed to the holder of a share Class B common stock have ten times the voting power of any securities distributed to the holder of a share of Class A common stock, or such merger, consolidation, or other transaction is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A common stock and Class B common stock, each voting as a separate 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 class is approved by the affirmative vote of the holders of a majority of the outstanding shares of Class A common stock and Class B common stock, each voting as a separate class.

Conversion

Each outstanding share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock. In addition, each share of Class B common stock will convert automatically into one share of Class A common stock upon any transfer, whether or not for value, except for certain permitted transfers described in our restated certificate of incorporation, including transfers to family members, trusts solely for the benefit of the stockholder or their family members, and partnerships, corporations, and other entities exclusively owned by the stockholder or their family members. Once converted or transferred and converted into Class A common stock, the Class B common stock will not be reissued.

All the outstanding shares of our Class B common stock will convert automatically into shares of our Class A common stock upon the date that is the earlier of (i) the date specified by a vote of the holders of 66 2/3% of the outstanding shares of our Class B common stock, (ii) ten years from the closing date of our initial public offering of Class A common stock, and (iii) the date that the total number of shares of our Class B common stock outstanding cease to represent at least 5% of all outstanding shares of our common stock. Following such conversion, each share of Class A common stock will have one vote per share and the rights of the holders of all outstanding common stock will be identical. Once converted into Class A common stock, the Class B common stock may not be reissued.

Preferred Stock

Our board of directors is authorized, subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series, and to fix the designation, powers, preferences, and rights of the shares of each series and any of its qualifications, limitations, or restrictions, in each case without further vote or action by our stockholders. Our board of directors may also increase or decrease the number of shares of any series of preferred stock, but not below the number of shares of that series then outstanding, without any further vote or action by our stockholders. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of our common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring, or preventing a change in control of our company and might adversely affect the market price of our Class A common stock and the voting and other rights of the holders of our Class A common stock and Class B common stock.

Registration Rights

The holders of certain outstanding shares of our Class B common stock, or their permitted transferees, are entitled to rights with respect to the registration of these shares under the Securities Act of 1933, as amended (the "Securities Act"). These shares are referred to as registrable securities. These rights are provided under the terms of the Investor Rights Agreement and include requested registration rights, Form S-3 registration rights, and piggyback registration rights. In any registration made pursuant to the Investor Rights Agreement, all fees, costs, and expenses of underwritten registrations, including fees and disbursements of one special counsel to the selling stockholders, will be borne by us and all selling expenses, including the estimated underwriting discounts and selling commissions, will be borne by the holders of the shares being registered. However, we will not be required to bear the expenses in connection with the exercise of the requested and Form S-3 registration rights of a registration if the request is subsequently withdrawn at the request of the selling stockholders holding a majority of registrable securities to be registered.

The registration rights terminate upon the earlier of (i) three years following the completion of our initial public offering of Class A common stock or (ii) as to any given holder of registration rights when such holder of registration rights can sell all of such holder's registrable securities in any three-month period without registration pursuant to Rule 144 under the Securities Act and without the requirement for us to be in compliance with the current public information requirement under Rule 144(c)(1).

Form S-3 Registration Rights

The holders of certain outstanding shares of our Class B common stock or their permitted transferees are also entitled to Form S-3 registration rights. The holders of these registrable securities then outstanding can request that we register all or part of their shares on Form S-3 if we are eligible and qualified to file a registration statement on Form S-3 and if the aggregate price to the public of the shares offered is at least \$2.0 million. The stockholders may require us to effect at most two registration statements on Form S-3 in any twelve month period. We may postpone the filing of a registration statement on Form S-3 no more than twice during any twelve month period for up to 120 days if our board of directors determines that the filing would be detrimental to us and our stockholders. We are not required to effect a registration on Form S-3 under certain additional circumstances specified in the amended and restated investor rights agreement.

Piggyback Registration Rights

If we register any of our securities for public sale, the holders of certain shares of our Class B common stock or their permitted transferees are entitled to piggyback registration rights. However, this right does not apply to a registration relating to sales of shares of participants in one of our stock plans, a registration relating to the offer and sale of debt securities, a registration relating to a corporate reorganization or other transaction under Rule 145 of the Securities Act, or a registration on any registration form that does not permit secondary sales. The underwriters of any underwritten offering have the right, in their sole discretion, to limit, because of marketing reasons, the number of shares registered by these holders, in which case the number of shares to be registered will be apportioned, first, to us, and second, pro rata among these holders, according to the total amount of securities entitled to be included by each holder, subject to additional circumstances specified in the amended and restated investor rights agreement.

Anti-Takeover Provisions

The provisions of Delaware law, our restated certificate of incorporation and our amended and restated bylaws could have the effect of delaying, deferring, or discouraging another person from acquiring control of our company. These provisions, which are summarized below, may have the effect of discouraging takeover bids. They are also designed, in part, to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of increased protection of our potential ability to negotiate with an unfriendly or unsolicited acquirer outweigh the disadvantages of discouraging a proposal to acquire us because negotiation of these proposals could result in an improvement of their terms.

Delaware Law

We are subject to the provisions of Section 203 of the Delaware General Corporation Law (the "DGCL") regulating corporate takeovers. In general, DGCL Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date on which the person became an interested stockholder unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, but not the outstanding voting stock owned by the interested stockholder, (i) shares owned by persons who are directors and also officers and (ii) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to the date of the transaction, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66.67% of the outstanding voting stock that is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction or series of transactions together resulting in a financial benefit to the interested stockholder. 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 outstanding voting stock. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board of directors does not approve in advance. We also anticipate that DGCL Section 203 may also discourage attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Restated Certificate of Incorporation and Amended and Restated Bylaw Provisions

Our restated certificate of incorporation and our amended and restated bylaws include a number of provisions that could deter hostile takeovers or delay or prevent changes in control of our management team, including the following:

- *Dual Class Common Stock.* Our restated certificate of incorporation provides for a dual class common stock structure pursuant to which holders of our Class B common stock will have the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding Class A and Class B common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets. Holders of Class B common stock, including investors, executives, and employees, have the ability to exercise significant influence over those matters.
 - *Board of Directors Vacancies.* Our restated certificate of incorporation and amended and restated bylaws authorize only our board of directors to fill vacant directorships, including newly created seats. In addition, the number of directors constituting our board of directors is permitted to be set only by a resolution adopted by a majority vote of our entire board of directors. These provisions prevent a stockholder from increasing the size of our board of directors and then gaining control of our board of directors by filling the resulting vacancies with its own nominees. This makes it more difficult to change the composition of our board of directors but promotes continuity of management.
 - *Classified Board.* Our restated certificate of incorporation and amended and restated bylaws provide that our board of directors is classified into three classes of directors. The existence of a classified board of directors could discourage a third-party from making a tender offer or otherwise attempting to obtain control of us as it is more difficult and time consuming for stockholders to replace a majority of the directors on a classified board of directors.
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- *Directors Removed Only for Cause.* Our restated certificate of incorporation provides that stockholders may remove directors only for cause.
 - *Supermajority Requirements for Amendments of Our Restated Certificate of Incorporation and Amended and Restated Bylaws.* Our restated certificate of incorporation further provides that the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of voting stock are required to amend certain provisions of our restated certificate of incorporation, including provisions relating to the classified board, the size of the board, removal of directors, special meetings, actions by written consent, and designation of our preferred stock. In addition, the affirmative vote of holders of 75% of the voting power of each of our Class A common stock and Class B common stock, voting separately by class, are required to amend the provisions of our restated certificate of incorporation relating to the terms of our Class B common stock. The affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of voting stock are required to amend or repeal our amended and restated bylaws, although our amended and restated bylaws may be amended by a simple majority vote of our board of directors.
 - *Stockholder Action; Special Meeting of Stockholders.* Our restated certificate of incorporation provides that special meetings of our stockholders may be called only by a majority of our board of directors, the chairman of our board of directors, our lead independent director, or our chief executive officer. Our restated certificate of incorporation provides that our stockholders may not take action by written consent, but may only take action at annual or special meetings of our stockholders. As a result, holders of our capital stock would not be able to amend our amended and restated bylaws or remove directors without holding a meeting of our stockholders called in accordance with our amended and restated bylaws. Further, our amended and restated bylaws provide that special meetings of our stockholders may be called only by a majority of our board of directors, the chairman of our board of directors, our lead independent director, or our chief executive officer, thus prohibiting a stockholder from calling a special meeting. These provisions might delay the ability of our stockholders to force consideration of a proposal or for stockholders to take any action, including the removal of directors.
 - *Advance Notice Requirements for Stockholder Proposals and Director Nominations.* Our amended and restated bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders or to nominate candidates for election as directors at our annual meeting of stockholders. Our amended and restated bylaws also specify certain requirements regarding the form and content of a stockholder's notice. These provisions might preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders if the proper procedures are not followed. We expect that these provisions might also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.
 - *No Cumulative Voting.* The DGCL provides that stockholders are not entitled to the right to cumulate votes in the election of directors unless a corporation's certificate of incorporation provides otherwise. Our restated certificate of incorporation and amended and restated bylaws do not provide for cumulative voting.
 - *Issuance of Undesignated Preferred Stock.* Our board of directors has the authority, without further action by the stockholders, to issue up to 10,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by our board of directors. The existence of authorized but unissued shares of preferred stock enables our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest, or other means.
 - *Choice of Forum.* Section 22 of the Securities Act of 1933, as amended (the "**Securities Act**"), creates concurrent jurisdiction for federal and state courts over all claims brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. Our amended and restated bylaws provide that the federal district courts of the United States of America will, to the fullest extent permitted by law, be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (the "**Federal Forum Provision**"). Our decision to adopt a Federal Forum Provision followed a decision by the Supreme Court of the State of Delaware holding that such provisions are facially valid under Delaware law. While there can be no assurance that federal or state courts will follow the holding of the Delaware Supreme Court or determine that the Federal Forum Provision should
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be enforced in a particular case, application of the Federal Forum Provision means that suits brought by our stockholders to enforce any duty or liability created by the Securities Act must be brought in federal court and cannot be brought in state court. This choice of forum provision does not apply to claims that are vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery of the State of Delaware, or for which the Court of Chancery of the State of Delaware does not have subject matter jurisdiction.

Section 27 of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) creates exclusive federal jurisdiction over all claims brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. In addition, neither the exclusive forum provision nor the Federal Forum Provision applies to suits brought to enforce any duty or liability created by the Exchange Act. Accordingly, actions by our stockholders to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder must be brought in federal court. Our stockholders will not be deemed to have waived our compliance with the federal securities laws and the regulations promulgated thereunder.

Exchange Listing

Our Class A common stock is listed on The New York Stock Exchange under the symbol “ZUO.”

Transfer Agent and Registrar

The transfer agent and registrar for our Class A common stock is Computershare Trust Company, N.A.



December 17th, 2020

Re: Offer of Employment by Zuora, Inc.

Dear Sri,

I am very pleased to offer you the position of TBD with Zuora, Inc., a Delaware Corporation (the "**Company**"), subject to completion of a satisfactory reference and background check and approval by Zuora's Compensation Committee of our Board of Directors ("**Compensation Committee**"). You will report to the CEO, Tien Tzuo, and your anticipated start date will be on January 19, 2021. The terms of our offer and the benefits currently provided by the Company are set forth in this letter.

1. **Starting Salary.** Your starting salary will be four hundred thousand dollars (\$400,000) per year, subject to applicable taxes and withholdings, and will be subject to adjustment pursuant to the Company's employee compensation policies in effect from time to time. The Company currently pays salary on the 15th and last day of each month.

2. **Bonus Target.** Subject to Company performance, you will be eligible to participate in the Cash Bonus Plan and have the opportunity to earn up to 75% of your base salary earned during a fiscal year, for a total on target earnings (OTE) of seven hundred thousand dollars (\$700,000) per year, subject to applicable taxes and withholdings.

3. **Sign on Bonus.** You will also receive a one time sign on bonus of four hundred thousand dollars (\$400,000), subject to applicable taxes and withholdings, to be paid out in the first pay period after your start. If you voluntarily terminate your employment within the first twelve months, you will be responsible for repayment in its entirety.

4. **Equity Awards.** Subject to the approval of the Compensation Committee, you will be granted the following equity awards effective on your start date that will vest as follows:

a. 280,000 restricted stock units (the "**RSU Award**") for shares of Zuora's Class A common stock that will vest over a four-year period, with 1/4th of the shares subject to the RSU Award vesting on the first anniversary of the vesting commencement date of the RSU Award and 1/16 of the shares subject to the RSU Award vesting quarterly thereafter, subject to your continuing services to the Company through each such vesting date.

b. A stock option to purchase 120,000 shares of Zuora Class A common stock (the "**Option Award**") that will vest over a four-year period, with 1/4th of the shares subject to the Option Award vesting on the first anniversary of your start date and 1/48th of the shares subject to the Option Award vesting monthly thereafter, subject to your continuing services to the Company through each such vesting date.

The RSU Award and the Option Award (collectively, the “**Equity Awards**”) will be subject to the terms and conditions of Zuora’s 2018 Equity Incentive Plan (“**Plan**”) and the applicable agreements evidencing the Equity Award. No right to any stock is earned or accrued until such time that vesting occurs, nor does the grant confer any right to continue vesting or employment with Zuora.

In addition, subject to the approval of the Compensation Committee, the Company will enter into a Change in Control and Severance Agreement in the Company’s standard form for this position.

5. **Benefits.** In addition, you will be eligible to participate in regular health insurance, bonus and other employee benefit plans established by the Company for its employees from time to time. As our Chief Technology Officer, you will also be entitled to participate in our “unlimited vacation” policy which allows you to take time off as needed. Except as provided below, the Company reserves the right to change or otherwise modify, in its sole discretion, the preceding terms of employment, as well as any of the terms set forth herein at any time in the future.

6. **Confidentiality.** As an employee of the Company, you will have access to certain confidential information of the Company and you may, during the course of your employment, develop certain information or inventions that will be the property of the Company. To protect the interests of the Company, you will need to sign the Company’s standard “Employee Invention Assignment and Confidentiality Agreement” as a condition of your employment. We wish to impress upon you that we do not want you to, and we hereby direct you not to, bring with you any confidential or proprietary material of any former employer or to violate any other obligations you may have to any former employer. During the period that you render services to the Company, you agree to not engage in any employment, business or activity that is in any way competitive with the business or proposed business of the Company. You will disclose to the Company in writing any other gainful employment, business or activity that you are currently associated with or participate in that competes with the Company. You will not assist any other person or organization in competing with the Company or in preparing to engage in competition with the business or proposed business of the Company. You represent that your signing of this offer letter, agreement(s) concerning equity awards granted to you, if any, under the Plan (as defined above) and the Company’s Employee Invention Assignment and Confidentiality Agreement and your commencement of employment with the Company will not violate any agreement currently in place between yourself and current or past employers.

7. **Non-Solicitation.** During your employment with the Company and for a period of one (1) year thereafter, you will not directly or indirectly solicit away employees or consultants of the Company for your own benefit or for the benefit of any other person or entity.

8. **At Will Employment.** While we look forward to a long and profitable relationship, should you decide to accept our offer, you will be an at-will employee of the Company, which means the employment relationship can be terminated by either of us for any reason, at any time, with or without prior notice and with or without cause. Any statements or representations to the contrary (and, indeed, any statements contradicting any provision in this

letter) should be regarded by you as ineffective. Further, your participation in any equity or benefit program is not to be regarded as assuring you of continuing employment for any particular period of time. Any modification or change in your at will employment status may only occur by way of a written employment agreement signed by you and the Chief Executive Officer of the Company.

9. **Authorization to Work.** Please note that because of employer regulations adopted in the Immigration Reform and Control Act of 1986, within three (3) business days of starting your new position you will need to present documentation demonstrating that you have authorization to work in the United States. If you have questions about this requirement, which applies to U.S. citizens and non-U.S. citizens alike, you may contact our personnel office.

10. **Arbitration.** You and the Company shall submit to mandatory and exclusive binding arbitration of any controversy or claim arising out of, or relating to, this Agreement or any breach hereof, provided, however, that the parties retain their right to, and shall not be prohibited, limited or in any other way restricted from, seeking or obtaining equitable relief from a court having jurisdiction over the parties. Such arbitration shall be governed by the Federal Arbitration Act and conducted through the American Arbitration Association in the State of California, San Mateo County, before a single neutral arbitrator, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association in effect at that time. The parties hereby waive any rights they may have to have any such claims tried before a judge or jury. The parties may conduct only essential discovery prior to the hearing, as defined by the AAA arbitrator. The arbitrator shall issue a written decision that contains the essential findings and conclusions on which the decision is based. You shall bear only those costs of arbitration you would otherwise bear had you brought a claim covered by this Agreement in court. Judgment upon the determination or award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

11. **Acceptance.** This offer will remain open until December 22, 2020. If you decide to accept our offer, and I hope you will, please sign the enclosed copy of this letter in the space indicated and return it to me. Your signature will acknowledge that you have read and understood and agreed to the terms and conditions of this offer letter and the attached documents, if any. Should you have anything else that you wish to discuss, please do not hesitate to call me.

Sri, we look forward to the opportunity to welcome you to Zuora, Inc. Very truly yours,

/s/ Rene C. Cirulli
Rene C. Cirulli, VP Global Talent

I have read and understood this offer letter and hereby acknowledge, accept and agree to the terms as set forth above and further acknowledge that no other commitments were made to me as part of my employment offer except as specifically set forth herein.

/s/ Sridhar Srinivasan Date signed: December 18, 2020
Sri Srinivasan



Zuora, Inc.
101 Redwood Shores Parkway
Redwood City, California 94065

January 11, 2021

Dear Brent:

This letter agreement (this "**Agreement**") is made and entered into as of January 11, 2021 and confirms the terms of the agreement we have reached with you with respect to your departure and transition from Zuora, Inc. ("**Zuora**" or the "**Company**").

1. **Separation.** You have provided notice to Zuora of your resignation as Zuora's Senior Vice President, Technology effective on May 19, 2021 (the "**Separation Date**"). Until your Separation Date, you will continue to be paid your current base salary and be eligible to participate in all Zuora-sponsored health and benefit plans. You will be eligible to receive the bonus payout for the quarter ending January 31, 2021 under Zuora's Cash Incentive Plan (including any true-up or true-down payment under such plan for the fiscal year ending January 31, 2021), subject to taxes and withholdings. Notwithstanding the above, you acknowledge that you will not be eligible to receive a bonus payout under Zuora's Cash Incentive Plan for any future period, including any period in Zuora's fiscal year ending January 31, 2022.
2. **Consulting Services.** At the end of the Separation Date, you will cease being an employee of Zuora. If you sign this Agreement and on the Separation Date you sign a second release of all claims in substantially the form attached as Exhibit A hereto that will be provided to you by Zuora on or prior to the Separation date, then from May 20, 2021 through November 19, 2021 (the "**Consulting Period**"), Zuora agrees to retain you as a consultant of Zuora and you agree that during the Consulting Period you will provide advisory and transition services to Zuora. Assignment of these services shall be at the direction of Zuora's Chief Executive Officer and such employees as he may designate from time to time. During the Consulting Period:
 - (a) Zuora will pay you a consulting fee of \$250 per hour for your services rendered during the Consulting Period. You agree to provide Zuora with an invoice (submitted to ZEO Success at mary.hartman@zuora.com) by the 15th day of each month indicating the number or hours/days worked in the prior calendar month. You will be reimbursed by Zuora for all ordinary and reasonable direct expenses which you may incur in connection with this project, including travel expenses. You are solely responsible for providing, at your expense, those ordinary and necessary general and administrative

resources needed for performance of the consulting services such as a cell phone or any related costs for internet service or telephone communication (although Zuora may provide a computer to you as may be appropriate for purposes of performing the consulting services). Such general and administrative expenses are not eligible for reimbursement.

- (b) Your status and relationship with Zuora shall be that of an independent contractor and consultant. You will receive an IRS form 1099 for the consulting fees paid by Zuora under this Agreement. You will be responsible for payment of federal, state and local taxes, contributions required under Social Security and any other taxes imposed with respect to your receipt of fees for your consulting services under this Agreement.
- (c) You will not be eligible to participate in any Zuora-sponsored compensation, welfare or employee benefits, or bonus or cash incentive plans.
- (d) Any inventions, improvements, concepts, or ideas made or conceived by you in connection with and during the performance of the consulting services under this Agreement shall be considered the sole and exclusive property of Zuora. Any work performed by you under this Agreement during the Consulting Period shall be considered a Work Made for Hire as that phrase is defined by the United States Copyright laws and shall be owned by and for the express benefit of Zuora. In the event it should be established that such work does not qualify as a Work Made for Hire, you agree to and do hereby assign to Zuora all of your right, title and interest in such work product including, but not limited to, all copyrights, patents, trademarks and other proprietary rights. Both during the Consulting Period and thereafter, you agree to fully cooperate with Zuora in the protection and enforcement of any intellectual property rights that may derive as a result of the services performed by you during the Consulting Period. This shall include executing, acknowledging and delivering to Zuora all documents or papers which may be necessary to enable Zuora to publish or protect said inventions, improvements, and ideas.

3. **Equity Awards.** Treatment of your unvested restricted share awards will be in accordance with the provisions of Zuora's applicable equity incentive plan under which they were granted and the corresponding grant agreements (the "**Equity Agreements**"); provided, however, you understand and agree that notwithstanding anything to the contrary in the Equity Agreements, all of the restricted shares on which the restrictions have not lapsed and all unvested equity as of the Separation Date will be forfeited as of that date. You acknowledge and agree that you have no rights in or with respect to Zuora's stock other than as described in this Paragraph 3. Stock options you hold that are vested as of the Separation Date are exercisable with respect to the vested shares at any time until three months after the end of the Consulting Period (i.e. until February 19, 2022). Except as expressly set forth in this Paragraph 3, all of the terms set forth in the Equity Agreements will remain in full force and effect.

4. **Return of Company Property.** You agree that on or before the Separation Date, you will return all Zuora assets including (without limitation) phones, keys, credit cards, card key passes and any other property that you received in connection with your employment including copies of documents that belong to Zuora and files stored on your computer(s) that contain information belonging to Zuora. With respect to any computer that may be

provided to you for purposes of performing the consulting services, you agree to return such computer upon Zuora's request (but not later than the end of the Consulting Period (i.e. November 19, 2021).

- 5. General Release of all Claims.** In consideration for Zuora agreeing to retain you as a consultant during the Consulting Period as described in Paragraph 2 above, to the fullest extent permitted by law, you waive, release and promise never to assert any claims or causes of action, whether or not now known, against Zuora or its predecessors, successors or past or present subsidiaries, stockholders, directors, officers, employees, consultants, attorneys, agents, assigns and employee benefit plans with respect to any matter, including (without limitation) any matter related to your employment with Zuora or the termination of that employment, including (without limitation) claims to attorneys' fees or costs, claims of wrongful discharge, constructive discharge, emotional distress, defamation, invasion of privacy, fraud, breach of contract or breach of the covenant of good faith and fair dealing and any claims of discrimination, retaliation or harassment based on sex, age, race, national origin, disability or any other basis under the Title VII of the Civil Rights Act of 1964, the California Fair Employment and Housing Act, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act and all other laws and regulations relating to employment. However, this release covers only those claims that arose prior to the execution of this Agreement and only those claims that may be waived by applicable law. Execution of this Agreement does not bar any claim that arises hereafter, including (without limitation) a claim for breach of this Agreement and does not waive any claims for alleged work-related injuries that you have filed with Zuora's workers' compensation insurance company.
- 6. Waiver.** You expressly waive and release any and all rights and benefits under Section 1542 of the California Civil Code (or any analogous law of any other state), which reads as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.
- 7. Effective Date and Revocation.** You have up to 21 days after you receive this Agreement to review it. You are advised to consult an attorney of your own choosing (at your own expense) before signing this Agreement. Furthermore, you have up to seven days after you sign this Agreement to revoke it. If you wish to revoke this Agreement after signing it, you may do so by delivering a letter of revocation to me. If you do not revoke this Agreement, the eighth day after the date you sign it will be the "**Effective Date.**" Because of the seven-day revocation period, no part of this Agreement will become effective or enforceable until the Effective Date.
- 8. Legal Proceedings.** You agree that you will cooperate fully with Zuora, regarding existing and future legal or administrative proceedings or asserted claims relating to events which occurred during your employment in which Zuora is a party, and as to which you might in

Zuora's view have personal knowledge, including without limitation the execution of affidavits or other documents providing information requested by Zuora.

9. Nondisclosure, Assignment and Non-Solicitation Agreement. You agree that at all times during and after your employment with Zuora, you were and shall remain bound by the Employee Nondisclosure, Assignment and Non-Solicitation Agreement dated September 8, 2015 between you and Zuora (the "***Nondisclosure Agreement***").

10. Confidential and Proprietary Information. Without in any way limiting your general legal obligation to maintain the confidentiality of Zuora confidential and proprietary information, as a condition of receiving any of the benefits and payments provided by this Agreement, you agree to keep all confidential and proprietary information of Zuora, its subsidiaries and affiliated companies, including joint venture partners, strictly confidential, and not to disclose any such confidential or proprietary information to any other person except to the extent that disclosure is required by law, court order, or governmental inquiry. For purposes of this paragraph, confidential and proprietary information includes, but is not limited to, any non-public trade secret or commercially sensitive or valuable information concerning the business affairs, customers, technologies, and personnel of Zuora and any of its affiliated entities, and includes among other information:

- information that is related to any programs or procurements in which you have been involved or about which you have obtained information during your employment at Zuora;
- information concerning Zuora's customers, clients, or prospects, and their products, processes and policies;
- information concerning the management, policies, strategies, product development plans and finances of Zuora; and
- information regarding the officers and employees of Zuora.

You hereby agree to return to Zuora all Zuora confidential and proprietary information and property, whether located in files, memoranda, documents, or on computers, laptops, phones, removable media or other portable storage devices, and that you will not misappropriate, upload or download, transfer to any third party, or otherwise share or distribute Zuora confidential or proprietary data. You may retain your rolodex and a copy of your electronic address book to the extent they only contain contact information.

11. Insider Information. During your employment with Zuora, you have been treated as an "insider" for securities law purposes. Please review your obligations regarding your treatment of insider information, and remember that any financial plan, program, estimate, financial performance data or matter not readily available to the general public shall be maintained in strict confidence and may not be disclosed or discussed publicly. Remember that you remain subject to Zuora's Insider Trading Policy through the end of the Consulting Period.

12. Governing Law and Arbitration. This Agreement shall be governed by and construed and enforced in accordance with the laws of California (other than their choice-of law

provisions). Any dispute arising under this Agreement shall be settled exclusively through arbitration in San Mateo County, California. Such arbitration shall be conducted in accordance with the rules of the American Arbitration Association before a single arbitrator. The decision of the arbitrator shall be final and binding on both parties. Judgment may be entered on the award of the arbitrator in any court having proper jurisdiction.

- 13. Entire Agreement.** Except as expressly provided in this Agreement, this Agreement renders null and void and completely supersedes any prior written, oral or other agreements or representation between you and Zuora (including the Change in Control and Severance Agreement between you and Zuora dated May 15, 2017) and this Agreement constitutes the entire agreement between you and Zuora regarding the subject matter of this Agreement. You acknowledge that you have not relied on any representations, promises, or agreements of any kind made in connection with your decision to sign this Agreement except for those set forth in this Agreement. This Agreement may be modified only in a written document signed by you and a duly authorized officer of Zuora.
- 14. Severability.** If any term of this Agreement is held to be invalid, void or unenforceable, the remainder of this Agreement will remain in full force and effect and will in no way be affected, and the parties will use their best efforts to find an alternate way to achieve the same result.
- 15. Execution.** This Agreement may be executed in counterparts, each of which will be considered an original, but all of which together will constitute one agreement. Execution of a facsimile or electronic copy will have the same force and effect as execution of an original, and a facsimile or electronic signature will be deemed an original and valid signature.

[Signature page follows]

Please indicate your agreement with the above terms by signing below.

Very truly yours,

ZUORA, INC.

By: /s/ Laura Robblee

Laura Robblee

Senior Vice President, ZEO Success

I agree to the terms of this Agreement, and I am voluntarily signing this release of all claims. I acknowledge that I have read and understand this Agreement, and I understand that I cannot pursue any of the claims and rights that I have waived in this Agreement at any time in the future.

/s/ Brent R. Cromley, Jr.

Brent R. Cromley, Jr.

Dated: January 11, 2021

**SECOND AMENDMENT
TO
LOAN AND SECURITY AGREEMENT**

This Second Amendment to Loan and Security Agreement (this “**Amendment**”) is entered into this 19th day of January, 2021, by and between (a) **SILICON VALLEY BANK**, a California corporation (“**Bank**”), (b) **ZUORA, INC.**, a Delaware corporation (“**Zuora**”), (c) **ZUORA SERVICES, LLC**, a Delaware limited liability company (“**Services**”), and (d) **LEEYO SOFTWARE, INC.**, a Delaware corporation (“**Leeyo**”, together with Zuora and Services, are referred to herein, each and together, jointly and severally, as “**Borrower**”).

RECITALS

A. Bank and Borrower have entered into that certain Loan and Security Agreement dated as of June 14, 2017, as amended by that certain First Amendment to Loan and Security Agreement dated as of October 11, 2018, by and between Bank and Borrower (the “**First Amendment**”) (as the same has been and may from time to time be further amended, modified, supplemented or restated, the “**Loan Agreement**”).

B. Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.

C. Borrower has requested that Bank amend the Loan Agreement to make certain revisions to the Loan Agreement as more fully set forth herein.

D. Bank has agreed to so amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

AGREEMENT

Now, Therefore, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

1. Definitions. Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

2. Amendments to Loan Agreement.

2.1 Section 2.6 (Fees). Section 2.6(b) is hereby amended and restated as follows:

“ (b) [Reserved];”

2.2 Section 3.1 (Conditions Precedent to Initial Credit Extension). Section 3.1(g) is hereby amended and restated as follows:

“ (g) [Reserved];”

2.3 Section 5.4 (Litigation). Section 5.4 is hereby amended and restated as follows:

“ **5.4 Litigation.** There are no actions or proceedings pending or, to the knowledge of any Responsible Officer, threatened in writing by or against Borrower or any of its Subsidiaries that individually or in the aggregate could reasonably be expected to have a Material Adverse Change.”

2.4 Section 5.9 (Tax Returns and Payments; Pension Contributions). Section 5.9 is hereby amended and restated as follows:

“ **5.9 Tax Returns and Payments; Pension Contributions.** Borrower has timely filed all required tax returns and reports, and Borrower has timely paid all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrower except (a) to the extent such taxes are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted, so long as such reserve or other appropriate provision, if any, as shall be required in conformity with GAAP shall have been made therefor, (b) for such taxes, assessments, deposits and contributions disclosed in the Perfection Certificate delivered on the Effective Date, or (c) if such taxes, assessments, deposits and contributions do not, individually or in the aggregate, exceed Three Million Dollars (\$3,000,000.00).

Borrower is unaware of any claims or adjustments proposed for any of Borrower’s prior tax years which could reasonably be expected to result in additional taxes becoming due and payable by Borrower in excess of Two Million Dollars (\$2,000,000.00), except as disclosed in the Perfection Certificate, and as any and all such taxes may be deferred by law, including according to the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). Borrower has paid all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and Borrower has not withdrawn from participation in, and has not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.”

2.5 Section 6.1 (Government Compliance). Section 6.1(a) is hereby amended and restated as follows:

“ (a) Maintain its and all its Subsidiaries’ legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction in which the failure to so qualify would reasonably be expected to have a material adverse effect on Borrower’s business or operations. Borrower shall comply, and have each Subsidiary comply, in all material respects, with all laws, ordinances and regulations to which it is subject, where the failure to so comply would reasonably be expected to have a material adverse effect on Borrower’s business or operations. Notwithstanding the foregoing, (i) Borrower’s Subsidiaries may wind-up and dissolve to the extent that Borrower determines that it is reasonable to do so and any remaining assets from such Subsidiaries are transferred to Borrower or another Subsidiary in accordance with applicable law; provided however, in the event that any such Subsidiary is a Borrower or Guarantor, then the remaining assets of such Subsidiary shall be transferred to another Borrower or Guarantor, and (ii) nothing herein shall prohibit transactions permitted under Section 7.3.”

2.6 Section 6.2 (Financial Statements, Reports, Certificates). Section 6.2(g) is hereby amended and restated as follows:

“ (g) prompt report of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could reasonably be expected to result in damages or costs to Borrower or any of its Subsidiaries of, individually or in the aggregate, Three Million Five Hundred Thousand Dollars (\$3,500,000.00) or more; and”

2.7 Section 6.7 (Insurance). Section 6.7(a) is hereby amended and restated as follows:

“ (a) Keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower’s industry and location with financially sound and reputable insurance companies that are not Affiliates of Borrower. All property policies shall have a lender’s loss payable endorsement showing Bank as the sole lender loss payee. All liability policies shall show, or have endorsements showing, Bank as an additional insured. Bank shall be named as lender loss payee and/or additional insured with respect to any such insurance providing coverage in respect of any Collateral.”

2.8 Section 6.8 (Accounts). Section 6.8(b) is hereby amended and restated as follows:

“ (b) In addition to and without limiting the restrictions in (a), Borrower shall provide Bank written notice before establishing any Collateral Account at or with any bank or financial institution other than Bank or Bank’s Affiliates. For each Collateral Account that Borrower at any time maintains, Borrower shall cause the applicable bank or financial institution (other than Bank) at or with which any Collateral Account is maintained to execute and deliver a Control Agreement or other appropriate instrument with respect to such Collateral Account to perfect Bank’s Lien in such Collateral Account in accordance with the terms hereunder which Control Agreement may not be terminated without the prior written consent of Bank. Notwithstanding the foregoing, the provisions of the previous sentence shall not apply to (i) deposit accounts if the aggregate amount maintained therein does not at any time exceed Two Million Dollars (\$2,000,000.00) in the aggregate for all such accounts, and (ii) deposit accounts exclusively used for payroll, payroll taxes, and other employee wage and benefit payments to or for the benefit of Borrower’s employees and, in each case of clauses (i) and (ii), identified to Bank by Borrower.”

2.9 Section 6.10 (Protection and Registration of Intellectual Property Rights). Section 6.10 is hereby amended and restated as follows:

“ **6.10 Protection and Registration of Intellectual Property Rights.** Use all commercially reasonable efforts to protect, defend and maintain the validity and enforceability of Intellectual Property material to the operation of Borrower’s business.”

2.10 Section 6.13 (Formation or Acquisition of Subsidiaries). Section 6.13 is hereby amended and restated as follows:

“ **6.13 Formation or Acquisition of Subsidiaries.** Notwithstanding and without limiting the negative covenants contained in Sections 7.3 and 7.7 hereof, at the time that Borrower or any Guarantor forms any direct or indirect Subsidiary (other than an Immaterial Subsidiary) or acquires any direct or indirect Subsidiary (other than an

Immaterial Subsidiary) after the Effective Date (including, without limitation, pursuant to a Division), or if any Immaterial Subsidiary no longer qualifies as such, Borrower and such Guarantor shall (a) cause such Subsidiary to provide to Bank a joinder to this Agreement to become a co-borrower hereunder, together with such appropriate financing statements and/or Control Agreements, all in form and substance reasonably satisfactory to Bank (including being sufficient to grant Bank a first priority Lien (subject to Permitted Liens) in and to the assets of such Subsidiary), (b) provide to Bank appropriate certificates and powers and financing statements, pledging all of the direct or beneficial ownership interest in such Subsidiary, in form and substance reasonably satisfactory to Bank; provided, that with respect to any such Subsidiary that is a Foreign Subsidiary, in the event that Borrower and Bank mutually agree that (i) the grant of a continuing pledge and security interest in and to the assets of such Foreign Subsidiary, (ii) the guaranty of the Obligations of the Borrower by such Foreign Subsidiary and/or (iii) the pledge by Borrower of a perfected security interest in one hundred percent (100%) of the stock, units or other evidence of ownership of such Foreign Subsidiary, would reasonably be expected to have a material adverse tax effect on the Borrower, then the Borrower shall only be required to grant and pledge to Bank a perfected security interest in up to sixty-five percent (65%) of the stock, units or other evidence of ownership of such Foreign Subsidiary; and (c) provide to Bank all other documentation in form and substance reasonably satisfactory to Bank, including one or more opinions of counsel reasonably satisfactory to Bank, which in its opinion is appropriate with respect to the execution and delivery of the applicable documentation referred to above. Any document, agreement, or instrument executed or issued pursuant to this Section 6.13 shall be a Loan Document.”

2.11 Section 7.1 (Dispositions). Section 7.1 is hereby amended and restated as follows:

“ **7.1 Dispositions.** Convey, sell, lease, transfer, assign, or otherwise dispose of (including, without limitation, pursuant to a Division) (collectively, “**Transfer**”), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of worn-out, fully-depreciated or obsolete Equipment that is, in the reasonable judgment of Borrower, no longer economically practicable to maintain or useful in the ordinary course of business of Borrower; (c) consisting of Permitted Liens and Permitted Investments; (d) consisting of the sale or issuance of any stock of Borrower permitted under Section 7.2 of this Agreement; (e) consisting of Borrower’s use or transfer of money or Cash Equivalents in the ordinary course of its business for the payment of ordinary course business expenses in a manner that is not prohibited by the terms of this Agreement or the other Loan Documents; (f) of non-exclusive licenses for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; and (g) other Transfers in an amount not to exceed Two Million Dollars (\$2,000,000.00) in any fiscal year.”

2.12 Section 7.2 (Changes in Business, Management, Control, or Business Locations). The second paragraph of Section 7.2 is hereby amended and restated as follows:

“ Borrower shall not, without at least thirty (30) days prior written notice to Bank: (1) add any new offices or business locations, including warehouses (unless such new offices or business locations contain less than Seven Hundred Fifty Thousand Dollars (\$750,000) in Borrower’s assets or property) or deliver any portion of the Collateral

valued, individually or in the aggregate, in excess of One Hundred Fifty Thousand Dollars (\$150,000) to a bailee at a location other than to a bailee and at a location already disclosed in the Perfection Certificate, (2) change its jurisdiction of organization, (3) change its organizational structure or type, (4) change its legal name, or (5) change any organizational number (if any) assigned by its jurisdiction of organization. If Borrower intends to deliver any portion of the Collateral valued, individually or in the aggregate, in excess of One Hundred Fifty Thousand Dollars (\$150,000) to a bailee, and Bank and such bailee are not already parties to a bailee agreement governing both the Collateral and the location to which Borrower intends to deliver the Collateral, then Borrower will first receive the written consent of Bank, and such bailee shall execute and deliver a bailee agreement in form and substance reasonably satisfactory to Bank.”

2.13 Section 7.3 (Mergers or Acquisitions). Section 7.3 is hereby amended and restated as follows:

“ **7.3 Mergers or Acquisitions.** Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person (including, without limitation, by the formation of any Subsidiary or pursuant to a Division), except for (a) the Acquisition of Leeyo on the Effective Date and (b) Permitted Acquisitions. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower. ”

2.14 Section 7.7 (Distributions; Investments). Section 7.7 is hereby amended and restated as follows:

“ **7.7 Distributions; Investments.** (a) Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock, provided that (i) Borrower may convert any of its convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof, (ii) Borrower may pay dividends solely in common stock; and (iii) Borrower may repurchase the stock of former employees or consultants pursuant to stock repurchase agreements so long as (x) an Event of Default does not exist at the time of such repurchase and would not exist after giving effect to such repurchase, and (y) after giving effect to such repurchase, Borrower shall have an Adjusted Quick Ratio of not less than 1.25 to 1.00; or (b) directly or indirectly make any Investment (including, without limitation, by the formation of any Subsidiary) other than Permitted Investments, or permit any of its Subsidiaries to do so.”

2.15 Section 10 (Notice). Section 10 is amended by deleting the notice information for Bank, and replacing it with the following:

“ If to Borrower: c/o Zuora, Inc.
 101 Redwood Shores Parkway
 Redwood City, CA 94065
 Attn: Todd McElhatton
 Email: tmcElhatton@zuora.com

If to Bank: Silicon Valley Bank
 2400 Hanover Street

Palo Alto, California 94304
Attn: Alex Grotevant
Email: agrotevant@svb.com

with a copy to: Morrison & Foerster LLP
200 Clarendon Street
Boston, Massachusetts 02116
Attn: Charles W. Stavros, Esquire
Email: cstavros@mfo.com”

2.16 Section 13 (Definitions). The following terms and their respective definitions set forth in Section 13.1 are deleted in their entirety and replaced with the following:

“ **“General Intangibles”** is all “general intangibles” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, claims, income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind. Notwithstanding the foregoing, General Intangibles shall not include any or all Intellectual Property.”

“ **“Loan Documents”** are, collectively, this Agreement and any schedules, exhibits, certificates, notices, and any other documents related to this Agreement, any Bank Services Agreement, any subordination agreement, any note, or notes or guaranties executed by Borrower or any Guarantor, and any other present or future agreement by Borrower and/or any Guarantor with or for the benefit of Bank, all as amended, restated, or otherwise modified.”

“ **“Obligations”** are Borrower’s obligations to pay when due any debts, principal, interest, fees, Bank Expenses, the Final Payment, and other amounts Borrower owes Bank now or later, whether under this Agreement, the other Loan Documents, or otherwise, including, without limitation, all obligations relating to Bank Services and interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank, and to perform Borrower’s duties under the Loan Documents.”

“ **“Revolving Line Maturity Date”** is the date that is forty-eight (48) months from the First Amendment Effective Date.”

2.17 Section 13 (Definitions). Clause (f) and (g) in the definition of “Permitted Acquisition” are amended and restated as follows:

“ (f) after giving effect to the consummation of such Acquisition, Borrower shall have an Adjusted Quick Ratio of not less than 1.25 to 1.00;”

“ (g) [Reserved];”

2.18 Section 13 (Definitions). Clause (h) in the definition of “Permitted Indebtedness” is amended and restated as follows:

“ (h) unsecured Indebtedness of Borrower or any Subsidiary arising from corporate credit cards and merchant services agreement incurred in the ordinary course of business in an amount not to exceed Two Hundred Fifty Thousand Dollars (\$250,000);”

2.19 Section 13 (Definitions). The following definitions are hereby inserted into their appropriate alphabetical position:

“ **“Division”** means, in reference to any Person which is an entity, the division of such Person into two (2) or more separate Persons, with the dividing Person either continuing or terminating its existence as part of such division, including, without limitation, as contemplated under Section 18-217 of the Delaware Limited Liability Company Act for limited liability companies formed under Delaware law, Section 17-220 of the Delaware Revised Uniform Limited Partnership Act for limited partnerships formed under Delaware law, or any analogous action taken pursuant to any other applicable law with respect to any corporation, limited liability company, partnership or other entity.”

“ **“Immaterial Subsidiary”** means any Subsidiary of Borrower or any Guarantor that (A) did not contribute more than 5.0% of the consolidated revenue of Borrower and its Subsidiaries (excluding, for the avoidance of doubt, intercompany revenues) for the most recently ended trailing four (4) quarter period, and (B) did not have assets of 5.0% or more of the total assets of Borrower and its Subsidiaries (excluding, for the avoidance of doubt, intercompany assets) as of the last day of the most recently ended fiscal quarter; provided, if at any time and from time to time after the Effective Date, all Immaterial Subsidiaries in the aggregate (A) contribute more than 15.0% of the consolidated revenue of Borrower and its Subsidiaries (excluding, for the avoidance of doubt, intercompany revenues) for the most recently ended trailing four (4) quarter period or (B) have assets of more than 15.0% of the total assets of Borrower and its Subsidiaries (excluding, for the avoidance of doubt, intercompany assets) as of the last day of the most recently ended fiscal quarter, then Borrower shall, not later than thirty (30) days after the date by which financial statements for such period are required to be delivered pursuant to this Agreement (or such longer period as Bank may agree in its reasonable discretion), (i) designate in writing to Bank that one or more of such Subsidiaries is no longer an Immaterial Subsidiary for purposes of this Agreement to the extent required such that the foregoing condition ceases to be true and (ii) comply with the provisions of Section 6.13 applicable to such Subsidiaries; and provided, further, that no Subsidiary that owns (or is the licensee of) any Intellectual Property that is material to the business of Borrower and its Subsidiaries shall constitute an “Immaterial Subsidiary”.”

2.20 Section 13 (Definitions). The following terms and their respective definitions are hereby deleted in their entirety from Section 13.1: (a) “Anniversary Fee”; and (b) “IP Agreement”.

2.21 Exhibit A (Collateral Description). The Collateral Description appearing as Exhibit A of the Loan Agreement is amended in its entirety and replaced with the Collateral Description appearing on Schedule 1 hereto. Within ten (10) business days of the effectiveness of this Amendment, Bank agrees to provide Borrower a copy of a filed UCC-3 financing statement with an amended description of Collateral that no longer includes Intellectual Property, as set forth on Schedule 1 hereto.

2.22 Exhibit B (Compliance Certificate). The Compliance Certificate appearing as Exhibit B of the Loan Agreement is amended in its entirety and replaced with the Compliance Certificate appearing on Schedule 2 hereto.

3. Limitation of Amendments.

3.1 The amendments set forth in Section 2, above, are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

3.2 This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

4. Representations and Warranties. To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

4.1 Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

4.2 Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

4.3 The organizational documents of Borrower delivered to Bank on the Effective Date remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect, except as set forth in the Borrowing Certificates provided as of the date of this Amendment;

4.4 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

4.5 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

4.6 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on Borrower, except as already has been obtained or made; and

4.7 This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

5. **Termination of Intellectual Property Security Agreement.** Borrower hereby acknowledges, confirms and agrees that the Intellectual Property Security Agreement dated as of June 14, 2017, as supplemented, between Borrower and Bank shall be terminated as of the date of this Amendment.

6. **Updated Perfection Certificate.** Borrower has delivered an updated Perfection Certificate in connection with this Amendment (the "**Updated Perfection Certificate**") dated as of the date hereof, which Updated Perfection Certificate shall supersede in all respects that certain Perfection Certificate dated as of June 14, 2017. Bank and Borrower hereby agree that all references in the Loan Agreement to the "Perfection Certificate" shall hereinafter be deemed to be references to the Updated Perfection Certificate, as defined herein.

7. **Post-Closing Conditions.** Within forty-five (45) days of the date hereof, Borrower shall use commercially reasonable efforts to cause the landlord to execute and deliver a Landlord Consent in favor of Bank with respect to Borrower's leased location at 101 Redwood Shores Parkway, Redwood City, California 94065.

8. **Integration.** This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Amendment and the Loan Documents merge into this Amendment and the Loan Documents.

9. **Counterparts.** This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

10. **Effectiveness.** This Amendment shall be deemed effective upon

(a) the due execution and delivery to Bank of this Amendment by each party hereto;

(b) Borrower's payment to Bank of (i) a fully earned, non-refundable commitment fee in an amount equal to Thirty Thousand Dollars (\$30,000), and (ii) Bank's legal fees and expenses not to exceed Thirty Thousand Dollars (\$30,000.00) incurred in connection with this Amendment;

(c) the Operating Documents (if modified since last delivered to Bank) and good standing certificates of Borrower certified by the Secretary of State (or equivalent agency) of Borrower's jurisdiction of organization or formation and each jurisdiction in which Borrower is qualified to conduct business, each as of a date no earlier than thirty (30) days prior to date hereof; and

(d) a secretary's certificate of Borrower with respect to such Borrower's Operating Documents and resolutions authorizing the execution and delivery of this Agreement and the other Loan Documents to which it is a party.

[Signature page follows.]

In Witness Whereof, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

BORROWER:

ZUORA, INC.

By /s/ Todd McElhatton
Name: Todd McElhatton
Title: Chief Financial Officer

LEEYO SOFTWARE, INC.

By /s/ Todd McElhatton
Name: Todd McElhatton
Title: President

ZUORA SERVICES, LLC

By /s/ Todd McElhatton
Name: Todd McElhatton
Title: President

BANK:

SILICON VALLEY BANK

By /s/ Alex Grotevant
Name: Alex Grotevant
Title: Vice President

[Signature Page to Second Amendment to Loan and Security Agreement]

Zuora, Inc.
List of Subsidiaries

| Legal Entity Name | Jurisdiction |
|--|---------------------|
| Beijing ZuRui Technology Company Limited | China |
| Leeyo Software, Inc. | Delaware, U.S.A. |
| Zuora Australia Pty Ltd | Australia |
| Zuora Germany GmbH | Germany |
| Zuora India Private Limited | India |
| Zuora Italia S.r.l | Italy |
| Zuora Japan KK | Japan |
| Zuora Services, LLC | Delaware, U.S.A. |
| Zuora Singapore Pte. Ltd. | Singapore |
| Zuora Sweden AB | Sweden |
| Zuora UK Limited | England & Wales |

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Zuora, Inc.:

We consent to the incorporation by reference in the registration statement (Nos. 333-230948, 333-224259, 333-237512) on Form S-8 of Zuora, Inc. of our report dated March 31, 2021, with respect to the consolidated balance sheets of Zuora, Inc. as of January 31, 2021 and 2020, the related consolidated statements of comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended January 31, 2021, and the related notes (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 Zuora, Inc.

Our report dated March 31, 2021, on the consolidated financial statements, refers to Zuora, Inc.'s adoption of Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 842, Leases, as of February 1, 2019.

/s/ KPMG LLP

Santa Clara, California
March 31, 2021

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tien Tzuo, certify that:

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

Date: March 31, 2021

/s/ Tien Tzuo

Tien Tzuo

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF
THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Todd McElhatton, certify that:

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

Date: March 31, 2021

/s/ Todd McElhatton

Todd McElhatton

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tien Tzuo, Chief Executive Officer of Zuora, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Annual Report on Form 10-K of the Company for the fiscal year ended January 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2021

/s/ Tien Tzuo

Tien Tzuo

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Todd McElhatton, Chief Financial Officer of Zuora, Inc. (the “Company”), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Annual Report on Form 10-K of the Company for the fiscal year ended January 31, 2021 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 31, 2021

/s/ Todd McElhatton

Todd McElhatton

Chief Financial Officer

(Principal Financial and Accounting Officer)